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PERFORMANCE BUDGETING IN THE GOVERNMENT OF THE UNITED STATES [1])

BY CATHERYN SECKLER—HUDSON

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Unprecedented developments and improvements in public budgeting have occured in the United States since 1939. The Budgeting and Accounting Act of 1921 (42 Stat. 20) provided for the introduction of the executive budget concept in the Federal system of the United States. However, it was not until 1939 that the Executive Office of the President was established. Since that date the role of the President in the budgetary process has been gradually strengthened until today the President is in the center of budgetary administration. He announces the general outlines of his program as a framework for the preparation of agency budgets; he is legally responsible for the formulation of the budget including the coordination of its many parts; he interprets his proposed expenditure and revenue program to the Congress through his Budget Message in which he asks for Congressional approval of his plan; he is responsible for the administration of the budget after the Congress has authorized it; and finally the President is expected to render periodically an account of performance to the Congress, justifying both the programs in the budget and their administration.

The development of the „performance budget" concept is but one of many facets in the amplification of the President's responsibility in budgetary administration. It should be considered but one of the important trends in the field as a whole. In December 1951 this

1) Much of the material in this article will appear in a forthcoming volume by the author on *Budgetary Administration in the Government of the United States.*

writer published an article in this periodical entitled „Current Trends in Public Budgeting in the United States" [2]). It is within the framework of that broader presentation that this article on performance budgeting should be read [3]).

Definition.

The performance budget concept, revived in 1949 by the Commission on Organization of the Executive Branch of the Government (popularly known as the „Hoover Commission") basically means a focus of attention on the *ends to be served by the government* rather than on the dollars to be spent. In the United States where the annual national budget approaches the 100 billion dollar mark, and where more than fifty million individuals contribute to the public purse of the Nation, the concept of *ends to be served* by the government takes on practical meaning.

The performance budget document is prepared on the basis of functions and objectives of the several agencies and departments of the Government rather than exclusively on the basis of objects of expenditure and organizational units. Specifically, the recommendation for performance budgeting, as stated by the Hoover Commission was as follows:

> „We recommend that the whole budgetary concept of the Federal Government should be refashioned by the adoption of a budget based upon functions, activities, and projects: this we designate as a ‚performance budget'." [4])

The Commission maintained that if the executive preparation of the budget were on a performance basis, — centering attention on volume and kind of work to be done, accomplishments achieved, and costs of the services needed, it would concentrate" ... congressional action and executive direction on the scope and magnitude of the different Federal activities." Furthermore, it would place" ... both accomplishment and cost in a clear light before the Congress and the public." The Commission's recommendation was fully supported by the findings of the Task Force Report on Fiscal, Budgeting, and Accounting Activities [5]).

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[2]) *Public Finance,* December, 1951, pp. 319-337.

[3]) See also the author's article „Budgetary and Govermental Theory as Reflected in Presidential Budget Messages" in *Revista do Servico Publico,* December, 1945, pp. 5-26.

[4]) U.S. Commission on Organization of the Executive Branch of the Government, *Budgeting and Accounting,* Report to the Congress, (Washington: Government Printing Office, 1949), p. 8.

[5]) U.S. Commission on Organization of the Executive Branch of the Government, Task Force Report on *Fiscal, Budgeting, and Accounting Activities,* Appendix F, (Washington: Government Printing Office, 1949), p. 43.

Performance Budgeting — An Old Idea.

While credit for introducing a performance type budget into the Federal Government of the United States has been given to the Hoover Commission, it has a historical development which reaches backward almost half a century. In this connection Rowland Egger has said:

> „. . . it is to be noted that the Commission's shiny new word, ‚performance' budgeting, represents a return to, rather than a departure from, congressional thinking underlying the Budget and Accounting Act of 1921. As Representative Good remarked in the course of the House debates on the measure, ‚We do not appropriate money simply for the purpose of making appropriations; we appropriate money to carry out *work planned for the Government*'. I have supplied the italics. The plain fact seems to be that in the struggle to get ‚back to normalcy' in the early years of the 1920's the Bureau of the Budget and the Congress never found time to shift their approach to budgeting from the ‚appropriation' pivot, around which it had revolved for many decades prior to 1921, to a ‚Government work program' basis, which was implicit in the act from the very beginning. Thirty years late we discover anew a basic principle on which the original act was built, a principle which was itself plagiarized from Frederick Cleveland's work for Mr. Taft's — William Howard, that is — Commission on Economy and Efficiency a decade before" [6]).

The performance budget concept is in fact then and old idea emphasized by earlier authorities in somewhat different terms. At various times and in different places it has been designated as „functional" or „activity" or „program" budgeting. Progressive cities in many parts of the United States have used one form or another of this type of budgeting. Some of the States have developed „program" budgets. Maryland is today seriously considering the adoption of a program budget. California builds its appropriations in terms of programs. A number of the Federal agencies and departments have justified their activities on a program basis for many years. For example, the Department of Agriculture proudly refers to its score of clearly identifiable programs which for years have been presented as such. The activity schedules of the Department of the Interior have been well developed.

Nonetheless, when the unqualified recommendation of the Commission on Organization of the Executive Branch of the Government

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[6]) U.S. Congress. Senate. Committee on Expenditures in the Executive Departments, *To Improve Budgeting, Accounting, and Auditing Methods of the Federal Government,* Hearings before the Committee on S. 2054 and Amendments, February 27, 28, March 2, 3, 6, and 7, 1950, 81st Congress, 2d Session, (Washington: Government Printing Office, 1950), pp. 141-142. For earlier concepts of the „performance" budget see also U.S. President's Commission on Economy and Efficiency, *The Need for a National Budget,* House Document No. 854, 62d Congress, 2d Session, (Washington: Government Printing Office, 1912), p. 2; W. F. Willoughby, *Principles of Public Administration,* (Washington: The Brookings Institution, 1927), p. 444; U.S. President's Committee on Administrative Management, *Administrative Management in the Government of the United States,* (Washington: Government Printing Office, 1937), p. 16.

appeared, there were misgivings on the part of many Federal officials. Specifically, what would the practical meaning of „performance budgeting" come to be, and with what implications? How would it be defined by the Bureau of the Budget? By the Congress? More particularly by the Committees on Appropriations in the Houses of the Congress? And finally, within each agency of the government itself? Almost four years after the Commission's recommendation these questions have not been fully answered. However, it has come to be quite generally accepted that *the performance budget process involves:*

a - *the formulation and adoption of a plan of activities and programs for a stated time period;*
b - *the relating of program costs to resources;* and
c - *the achievement of the authorized plan, according to a time schedule, and at a cost within available resources.*

This work plan, to be meaningful, must lie within the framework of a central public policy and should involve the definition of objectives, the projection of work programs and basic methods for achieving the objectives, the forecasting of how much is to be accomplished within stated periods of time and at what cost. Thus, the budget process deals not only with dollars and cents, but rather with the programs and activities, the restrictions and obligations, the lives and the fortunes of those directly or remotely concerned. It is a continuous ongoing activity of arranging, authorizing, and administering the affairs of a society.

Further analysis of the budgetary process in the United States today reveals the fact that it involves *decision-making of a broad but explicit character.* These decisions are often so complex in nature that they seem to present no orderly pattern. However a penetrating study of budgeting and of budgets reveals several fundamental areas of decision-making which in turn may be characterized as the supporting processes of public budgeting. These processes may be stated as follows:

1 - Somehow and somewhere there is, or should be, a consideration and analysis of all of the *needs* of the people who live within the jurisdiction to be served by the budget;
2 - There is, at some point, a selection, from among these needs, of those to be administered by the government and which will therefore be included in the government's plan of activities;
3 - There must be, at some point, the establishment of fiscal resources to meet the costs of the planned activities;

4 - There must be appropriations and allocations of the resources among the many authorized activities and programs;
5 - There follows the direction and administration of the plans embodied and authorized in the budget; and finally
6 - There should be an accounting for performance and justification of the administration of the budget.

Readily it can be seen that these processes or areas of decision-making cover all aspects of the formulation, authorization, and administration of the budget. *Budget formulation* is that aspect defined above as the preparation and adoption of a plan of activities for a stated time period, and relating program costs to resources. *Budget administration* is that aspect defined above as the achievement of the authorized plan of activities (approved by the Congress in the form of a budget) according to a schedule and at a cost within resources available. The six processes embrace both long-range plans and decisions, and manifold short-range programs and decisions. Furthermore, between the stages of formulation, adoption, and administration of the plan, revision and change inevitably occur. New needs arise and old one disappear. The budget must provide adequate flexibility for the consideration and reconsideration of all contingencies. Hence the six processes constantly interact upon each other. None stands entirely separate or apart. No one of the processes is static — all move within the framework of the larger progressive plan. Collectively they move in a circular fashion, each interacting on each, and each on the whole of the dynamic process. If the process of public budgeting is interpreted in this manner it reaches to the center of social, economic and political life and reflects the composite philosophies of those individuals and groups who participate in it, either singly or collectively. When presented to the Congress the budget represents executive decisions upon how limited resources shall be distributed among alternative programs. *The budget as finally approved by the Congress serves as the instrument which depicts the final decisions which reflect administrative and political compromises as they are translated into specific programs.*

Legal Authorization of the Performance Budget.

The Congress of the United States enacted the first statute establishing a legal framework for performance budgeting at the national level with the passage of the *National Security Act Amendments of 1949* [7]). Specific requirements for a performance budget were provided in Section 11 of this Act which amends the *National Security Act of*

[7]) 63 Stat. 578.

1947. These requirements applied to the Department of Defense and its three military establishments, — the Department of the Army, the Department of the Navy, and the Department of the Air Force. Title IV of Section 11 of the *National Security Act Amendment of 1949* is entitled „Promotion of Economy and Efficiency Through Establishment of Uniform Budgetary and Fiscal Procedures and Organizations". The entire Title is significant in that it indicates a broad concept of budgetary administration. Section 403 of Title IV specifically makes mandatory the performance budget for the military establishments. It provides:

„Performance Budget

„Section 403. (a). The budget estimates of the Department of Defense shall be prepared, presented, and justified, here practicable, and authorized programs shall be administered, in such form and manner as the Secretary of Defense, subject to the authority and direction of the President, may determine, so as to account for, and report, the cost of performance of readily identifiable functional programs and activities, with segregation of operating and capital programs. So far as practicable, the budget estimates and authorized programs of the military departments shall be set forth in readily comparable form and shall follow a uniform pattern.

„(b). In order to expedite the conversion from present budget and accounting methods to the cost-of-performance method prescribed in this title, the Secretary of each military department, with the approval of the President and the Secretary of Defense, is authorized and directed, until the end of the second year following the date of enactment of this Act, to make such transfers and adjustments within the military department of which he is the head between appropriations available for obligation by such department in such manner as he deems necessary to cause the obligation and administration of funds and the reports of expenditures to reflect the cost of performance of such programs and activities. Reports of transfers and adjustments made pursuant to the authority of this subsection shall be made currently by the Secretary of Defense to the President and the Congress".

When this Act was passed by the Congress (August 10, 1949) the three military departments had already made substantial progress in converting to performance budgeting [8]). In a sense the Department of the Air Force had a unique opportunity. The *National Security Act of 1947* [9]) had provided for a separate Department of the Air Force and the segregation of Air Force funds from Army appropriations in order to reflect the needs of the Air Force and to provide for responsibility in the utilization of appropriations. This separation enabled the Air Force to establish a budget system which could adopt

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[8]) See especially the unpublished theses of Clark R. Renniger, „Administration of the Appropriation Service-Wide Operations under the Performance Budget of the Department of the Navy", The American University, Washington, D.C., 1950; and Charles Lloyd Kelchner, „The Development of a Performance Budget for the Department of the Navy", The American University, Washington, D.C., 1950.

[9]) 61 Stat. 495.

the best of known practices and be unhampered by entrenched interests and established practices. Procedures could be freely initiated and appropriation structures recommended which would implement the concept of performance budgeting [10]). However, all three of the military departments have made significant progress in the installation of performance budget systems particularly with respect to the work of each in implementing the concept of Comptrollership in Government [11]).

In 1950 the Congress of the United States provided for government-wide presentation of the budget on a performance basis. The *Budget and Accounting Procedures Act of 1950* [12]), while not using the words „performance budget", provides that:

> „The Budget shall set forth in such form and detail as the President may determine — (a) functions and activities of the Government; (b) any other desirable classification of data; (c) a reconciliation of the summary data on expenditures with proposed appropriations" [13]).

This provision has been interpreted as providing for a performance budget on a government-wide basis particularly in view of the Conference Report on the bill which states that the words „performance budget" have been eliminated from the Senate amendment as being superfluous and possibly, at a later date, restrictive [14]). Even before the final passage of the Act the Director of the United States Bureau of the Budget had announced through a press release, dated August 4, 1949, that the Budget of the United States Government for the fiscal year 1951 would be presented on a „performance" basis with a breakdown of over 90 percent of the proposed expenditures into activities schedules showing programs and costs [15]).

Implementation of the Performance Budget Concept.

As the several agencies of the Federal Government converted in part or in full to the performance budget idea it became clear that

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10) In this connection see especially the unpublished thesis of Kenneth Palmer Borgen, „The Performance Budget in the United States Department of the Air Force", The American University, Washington, D. C., 1951.

11) See especially *Comptrollers in the Navy,* Office of the Comptroller of the Navy, Department of the Navy, June 1951.

12) 64 Stat. 832. (approved September 12, 1950).

13) Title I, Section 102, amending Section 201 of the *Budget and Accounting Act of 1921.*

14) See U.S. Congress. House. Committee of Conference. *Budget and Accounting Procedures Act of 1950,* Conference Report No. 3030 to accompany H.R. 9038, 81st Congress, 2d Session, (Washington: Government Printing Office, 1950), pp. 16-17.

15) U.S. Bureau of the Budget Release, August 4, 1949. See also „Federal Budget on Performance Basis", *National Tax Journal,* Vol. II, No. 3 (September 1949).

the concept includes much more than a form of presentation of the budget document for purposes of legal authorization. It embraces a philosophy of management with all of the administrative implications which are involved in the implementation of a management philosophy. Therefore, while proper format of the budget document should never be minimized, the more basic problem of performance budgeting lies in the necessary alterations in planning, organizing, and directing the administrative activities of government so as to give meaning and reality to the concept. Unless this is accomplished, the substance of performance budgeting might not exist at all, though the document itself might well present the form.

Practical experience to date indicates many implications in the administrative implementation of performance budgeting. The establishment of fully developed performance budget systems and the presentation of performance budget documents will require years of study and improvements if superior accomplishment is to be achieved. Concretely, it will be necessary to improve activity schedules which in turn will demand a reconsideration and clarification of agency programs and objectives as well as the component elements of each. In many budgets there will need to be a separation of capital costs from operating costs. There will be needed improved explanatory statements and clearer reports on program performance, with workload and unit cost material included where available or desirable. Object schedules which have occupied such prominence will need to be refashioned to eliminate detail particularly with respect to personal service schedules.

Agencies which are engaged in business-type activities will need to consider the use of better commercial-type practices in designing their budgets, — accounting systems must be placed on an accrual basis and cost accounting established wherever practicable or desirable. Agencies engaged in research or scientific work will need to greatly improve and clarify narrative descriptions of their programs so that the real value of their projects is clear, and they must build up cost experience of the past as a basis for improving the projection of monetary requirements for proposed research and development work.

In turn it will follow that the structure of the appropriation ordinances and Acts should be refashioned so as to conform to the budget and accounting classifications. Obviously, this may take years to accomplish, especially at the national level of government because of sheer size and complexity of the appropriation structure now existing.

The Federal appropriation structure at present follows no logical pattern and seldom relates clearly to programs to be achieved. Unless this condition is changed, program budgeting will be defeated at the

Congressional level. In short, the vast implications of converting fully to budgeting on a performance basis will test the ability of administrators and leaders in the public service and in the Congress to analyze and reconsider everything concerning their organizations which they have heretofore taken for granted. This does not call for change *for the sake of change*: — rather it calls for an examination of the old and the new in order to produce a new synthesis of understanding which will support and give substance to the concept of performance budgeting. Only to the degree which this is done will performance budgeting become a reality.

Marked progress has been made in the conversion to performance budget systems both in the agencies of the Federal Government and on a government-wide basis. As presented to the Congress the *Budget of the United States Government* has reflected increasingly the concept of performance budgeting on the part of the Executive Branch. Especially there has been a noticeable attempt to locate costs of a major program within a single appropriation Act. As early as January 1947 the budget document was sent to the Congress containing a functional system of classification of government programs and expenditures [16]).

The content and arrangement of the fiscal 1951 budget document gave even greater emphasis to work programs and the performance on which the financial requirements were based. Long lists of civilian positions were omitted and replaced by a summary of employment at the beginning of the schedule of obligations by objects. A modernized pattern of appropriations was proposed for four departments and one agency. The appropriation structure brought together appropriations for a program or group of related programs in these organizations [17]). Narrative statements which described the purpose and program were provided for each appropriation or fund. Business-type budgets were extended to some unincorporated business enterprises. Some obligations were broken down to show costs applied to work programs [18]).

In the fiscal 1952 Federal budget, there was noticeable improvement in the statements of programs and performance, with the narrative statements indicating more clearly and in more detail the

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16) U.S. Bureau of the Budget, *The Budget of the United States Government for the Fiscal Year Ending June 30, 1948,* (Washington: Government Printing Office, 1947), p. 1353.

17) These organizations were the Department of the Interior, the Department of Justice, the Post Office Department, the Department of the Navy, and the General Services Administration.

18) U.S. Bureau of the Budget, *The Budget of the United States Government for the Fiscal Year Ending June 30, 1951,* (Washington: Government Printing Office, 1950), Part II, p. 2.

nature of sub-activities. In many cases there was also a refinement of activity schedules. The Federal budget for fiscal 1953 carried forward these improvements.

Supplementing the Budget of the United States for the fiscal years 1951 and 1952 is the simplified version of the budget known as *The Federal Budget in Brief* which graphically depicts the government programs as presented to the Congress by the President. *The Federal Budget in Brief* for the fiscal year 1953 clearly presents the budget expenditures in the form of eleven government programs, classified according to the broad purposes and functions they are designed to serve [19]). These programs are: Military Services; International Security and Foreign Relations; Finance, Commerce, and Industry; Transportation and Communication; Natural Resources; Agriculture and Agricultural Resources; Labor; Housing and Community Development; Education and General Research; Social Security, Welfare, and Health; and Veterans' Services and Benefits [20]). In the Statement by the President, *Reviewing the 1953 Budget,* it is noted that:

> „Nearly 74 percent of total Budget expenditures in the fiscal year 1953 will be for six major national security programs — military services, international security and foreign relations, atomic energy, defense production and economic stabilization, civil defense, and maritime activities" [21]).

Although much remains to be done, one cannot study the Federal budget presentations since 1947 without being impressed by the accomplishments in moving progressively forward to national program budgeting.

Principal Elements of Performance Budgeting.

Performance budgeting at the national level poses a challange not only for administrative leadership but for the Congress of the United States as well. It invites a change in approach to the problems of legislation and administration. It requires vigilant study, a receptiveness to new ideas and techniques, and painstaking thoroughness in research which heretofore has been reserved too often for the scholar. To test its viability will require keen analysis, systematization, appropriate standardization, and continuous re-evaluation of existing practices in the Legislative and Executive Branches of the Government. In the fullest sense, performance budgeting embraces a theory

[19]) In addition there are expenditure categories for „General Government" and for „Interest on the Public Debt".

[20]) See entire booklet *The Federal Budget in Brief,* Fiscal Year 1953, Executive Office of the President, Bureau of the Budget, Washington, D.C., for an excellent summary of the national program budget.

[21]) Statement dated August 19, 1952, p. 2.

of management which is to be found partially in the best experience of the past combined with on-going study and application in the future. If a more restricted interpretation is given the concept, it is doubtful whether „performance budgeting" will endure at the national level of government. A narrower definition could readily result in oversimplification which would not be applicable or adequate in a system of government as complex as that of the United States.

In studying a given governmental unit is it possible to identify the existence and application of the theory required for true program or performance budgeting? Are there tangible evidences of such a theory and if so, what are they? This writer believes that there *are* certain elements required in a system which maintains a genuine performance budget operation. Time, experience, and further research may add to or subtract from those which seem clear today. But at the present time it seems reasonable that the major required features which are identifiable in such a system would of necessity include the following:

1 - The use of work programs and activities.
2 - The installation of work measurement and the application of performance standards.
3 - The improvement of administrative reporting to include reporting on a performance basis, and the establishment of a progressive system of record keeping along functional lines.
4 - The installation and maintenance of an accrual basis of accounting and improved cost accounting methods where applicable or desirable.
5 - The provision for a comprehensive and continuous system of management analysis, evaluation, and improvement.
6 - The presentation, justification, and authorization of public expenditures by at least two primary categories — current operating expenditures and capital expenditures.
7 - The revision of appropriation structure in terms of programs and activities to be administered.

Each of the above elements does not stand alone, — each is valuable principally to the extent it interacts upon or operates in relation to each of the others and to the whole. It is in the total complex of these interactions that one finds the full meaning of program or performance budgeting. It is only for purposes of discussion that these several elements are treated separately in the following paragraphs.

Work Programs and Activities.

The use of work programs and activities is one of the principles of

budget management formulated by the late Harold D. Smith while he was Director of the United States Bureau of the Budget [22]). He referred to it as the principle of „executive budget programming". It requires that individual agency programs should be formulated and considered in terms of the government program as a whole and should be in accordance with the policies established by the President. A sound work program for a specified time period, should include for each activity a clear definition of objectives, the choice of basic methods for achieving the objectives, a forecasting of how much and what kind of work is to be done, at what cost and when. It is generally agreed that the first step toward performance budgeting is the improving and extending of activity schedules. It is suggested that in expressing activity schedules these steps be minimal:

1 - Consideration of the major purposes to be served.
2 - Specification of the programs to carry out the purposes.
3 - Indication of the program activities to be carried out under each appropriation or fund.
4 - Volume of work, with data on past, current, and anticipated work load.

These matters should be set forth in terms of objectives or functions rather than in terms of organizational structures, unless the organizational structure is a functional one. Obviously, if the organizational structure corresponds to the functional framework of an agency or department, it will facilitate the decentralization of budgeting, program, and financial responsibility at every level within the organization. The basic data underlying these points will be, or should be, needed at every level of budget review if intelligent consideration is given to budget requests. Final decisions on program requests can be no better than the information on which these decisions are made.

The Installation of Work Measurement and the Application of Performance Standards.

After the agency programs are budgeted the execution of them is largely in the hands of the administrator. Operations should have been planned in advance according to established performance standards including both the quantity and quality of work expected. This is the basis for later performance estimates and a basis for supervision of program achievement. The quantitative plans provide a yardstick of administrative intentions against which actual progress can be measured, and later budgetary requests determined. Without a reliable system of work measurement and performance standards,

[22]) See Harold D. Smith, *The Management of Your Government,* McGraw-Hill, New York, 1945, p. 90.

program budgeting could be defeated within the administrative agency.

The installation of work measurement and performance standards will vary in nature from agency to agency. There is no one correct pattern for measuring of activity or for making performance statements. In general it is preferable to decentralize the responsibility for discovering and using the method most suitable for a given program. The variety of government programs, both in nature and volume is so great that to insist on a particular method of measuring performance is naive. The principle is that there be *a* method of measuring performance rather than that there be a general prescription. Some agencies can use workload and unit cost data; others can use workload data but not unit cost data; still others can use only explanatory descriptive material. Furthermore, in the improvement of performance measurement, it should be kept in mind that different agencies are in different stages of development, and may move progressively from one stage to another over a period of time. Also, it should be kept in mind that Congressional attitude toward program budgeting is sharply conditioned by the evidence which is presented concerning the quantity and quality of work in a given program which has been accomplished with the funds appropriated. In establishing suitable performance standards for a given agency these guides seem minimal:

1 - Those who decide upon the standards must have a complete understanding of the nature of the work.
2 - The standards should be arrived at only after an examination of past records and of similar work done by other organizations.
3 - Standards should be considered tentative until tested by experience and application.
4 - Deviations from the established standards should be allowed, but only when warranted.

The Improvement of Administrative Reporting and the Establishment of Record Keeping along Functional Lines.

The success of performance or program budgeting will rest in no small measure on the improvement of administrative reporting with special reference to reporting on a functional and performance basis. Frequent and regular reports are necessary if management is to check on work done, objectives achieved or not achieved, and utilization of funds and personnel in terms of programs. Such reports become essential as a part of an agency's justification to the Congress both with respect to past performance and future budgetary requests. Harold D. Smith maintained that budgetary administration without full financial and operating reports flowing periodically from the

administrative units of the government was blind and arbitrary. Indeed, he elevated this concept to the level of „the principle of budget reporting" [23]).

The performance reporting systems currently in use in the several agencies fall into these major categories: (1) those reporting only volume of workload for each activity; (2) those reporting both volume and quality of workload; (3) those reporting volume and quality of workload and time expended; and (4) those reporting volume, quality, time expended, and costs of each program or activity. Within these reports the content may be as simple or complex and detailed as desirable. As a minimum the performance budget must be supported by reports on the total costs of each activity which in turn can be summarized by object of expenditure and by organizational unit [24]).

Closely related to both proper accounting and adequate reporting is the necessity for a progressive system of record keeping along functional lines. Reports are for the purpose of providing information needed in order to make proper decisions and to take appropriate action. These reports must receive prompt attention if they are to serve their purposes. Careful supervision and direction calls for continuous analysis of the reports, appropriate follow-up action, and regular inspection to ascertain results. Obviously record keeping along functional lines must become the basis for any enduring system of program budgeting.

The Installation and Maintenance of an Accrual Basis of Accounting and Improved Cost Accounting Methods Where Applicable.

The purpose of this element is to provide financial information and financial controls needed in the formulation, presentation, and execution of a budget on a true cost of performance basis. If performance budgeting is to be considered the end product of financial planning, then financial planning, as expressed in the budgets of the agencies and of the Government requires adequate and propter accounting support. Indeed, performance budgeting cannot become a reality without such accounting support.

Basically there must be an integration of budgeting and accounting classifications in order to provide adequate and reliable accounting support for budgets. Where appropriate, accrual accounting (e.g. that which involves determining costs and expenses in relation to changes in assets and liabilities) should be utillized and integrated with appropriation accounting. Further developments must be made in the

[23]) *The Management of Your Government, supra,* p. 91.

[24]) See the graphic booklet on *Performance Reporting* issued by the United States Treasury Department, May, 1950.

field of cost accounting, where appropriate, and its integration with appropriation accounting. In turn these developments will lead to the establishment of quantitative and financial control of inventories and other property. Accounting should be decentralized within the agencies to the degree practicable in terms of delegated opreating responsibilities and central controls required. In short, performance budgeting calls for a vastly improved accounting system for the Federal Government which will enable all responsible persons to appraise the value of programmed activities in the light of program costs and accomplishments, and to provide full, accurate, and timely disclosures of the financial results of operations and to control not only funds but property and other assets for which any given agency might be responsible [25]).

The Provision for a Comprehensive and Continuous System of Management Analysis, Evaluation, and Improvement.

It is generally agreed that performance budgeting along functional lines, calling in turn for improved methods of accounting, reporting, record keeping, etc., must necessarily be implemented by a program to improve the organization and management of each agency concerned. Such a program should provide an organized and systematic attempt to find more effective ways of organizing in terms of ends to be served; more efficient procedures to be used in the achievement of the ends; and for economical methods and techniques of operation. Concrete recognition of this need was evidenced by the establishment of the President's government-wide management program aimed at improving operations within the individual agencies. This program was authorized by Executive Order 10072, dated July 29, 1949 [26]). The Congress of the United States supported this program by the enactment of Title X of the Classification Act of 1949 [27]).

Both the executive order and the public law direct heads of agencies to make systematic reviews of their activities and to increase effectiveness and economy in operations. Responsibility for leadership of the government-wide program is placed on the Bureau of the Budget. Significant progress has been made in improved management within government agencies although the program has been in oper-

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[25]) See the First, Second, and Third Joint Reports by the Comptroller General of the U.S., the Secretary of the Treasury, and the Director, U.S. Bureau of the Budget, *Progress Under the Joint Program to Improve Accounting in the Federal Government,* Mimeographed. Dated respectively January 12, 1950; January 12, 1951; and January 25, 1952. The Third Joint Report gives an excellent account of progress made in the several agencies of the Federal Government.

[26]) 14 Fed. Reg. 4797.

[27]) 63 Stat. 954.

ation only three years [28]). In a discussion of the program William R. Divine states that it „has the objective of increasing the effectiveness and economy of federal programs" [29]). Mr. Divine states that „the overall process of improving programs and operations will be more effective if subject to orderly scheduling and review". In discussing such systematic review he discloses the close relationship between management improvement and program budgeting in these words:

> „They [systematic reviews] require a searching re-examination of the objectives and program goals of the agency as a whole and of each component part of the organization, in order to make certain that objectives and goals are clearly defined for the guidance of operations, are consistent with the intent of Congress and the program of the President, and are suited to current circumstances. Checking effectiveness also involves checking program progress, which is meaningful only in terms of specific program objectives" [30]).

The Division of Budget Estimates and Appropriations into Two Categories, — Current Operating Expenditures and Capital Expenditures.

An important element in performance budgeting is that types of expenditures, essentially different in character should be presented, justified, and authorized separately under each major program or activity in the budget. Two primary categories are capital outlays and current operating costs. A *capital cost* is an expenditure for the acquisition, construction, or improvement of property or equipment (fixed assets) such as land, buildings, plant, or machinery. An *operating cost* is an expenditure other than a capital cost incurred in carrying out a specific program or activity. These two types of costs are different in character and in a program budget should appear separately under each major program or activity.

Too often one finds these two classifications intermingled in the agency budgets. Other fixed charges, such as grants-in-aid, often appear as though they were operating costs. This makes it practically impossible to find the ultimate costs of either a given program or a large capital project. Furthermore, many of the annual appropriations on given capital projects are made without an understanding of total previous appropriations or of what may be requested in the future. It would seem therefore, that costs of capital projects should be set forth in the budget in terms of programs to which they relate and that current operating expenditures for these programs be grouped separately. The Hoover Commission noted that:

[28]) The nature and coverage of the program is described in detail in a document issued by the Bureau of the Budget, Executive Office of the President, December 1, 1950, titled *Progress in Improving Federal Administration.*

[29]) See entire article „Strengthening the Management of Federal Programs", *Public Administration Review,* Vol. XI, No. 2, Spring 1951, pp. 109-115.

[30]) *Ibid.,* p. 113.

„While capital projects may be carefully analyzed for usefulness, timeliness, and total probable costs at the time of original authorization, the total remaining costs of all capital projects should be set forth in the budget each year, together with costs incurred to date. These costs should be revised in succeeding years to keep them current with later developments".[31]).

The Revision of the Appropriation Structure along Functional Lines.

Performance budgeting, if it is to be fully effective and carried to its logical conclusion, must extend into the appropriation structure. The final responsibility for authorizing the work programs of the Federal Governments rest with the Legislative Branch of that Government. The structure of the appropriations which provide the life blood for these activities should be in accordance with the underlying purposes of program budgeting.

If the separate departments and agencies are expected to present program budgets to the President with expenditure estimates related to program costs; and if the President is expected to propose to the legislative body a comprehensive work plan for the Government in terms of programs and their measured costs; it follows that the legislativelative body should enact appropriate legislation on a functional basis, — that is, grouping together all appropriations relating to a single program or project. If this were done the President would be strengthened by having his proposed work plan returned to him, meaningfully intact, except for such modifications as the Congress has seen fit to make. In turn, the President could return the individually authorized programs to the appropriate and responsible department heads for execution. This would not only help clarify the location of responsibility by *purpose* but sharpen accountability as measured by *achievement* of that purpose. Furthermore, there would then have been established not only an executive performance budget, but a *legislative performance budget* which is the only statutory budget of the United States Government.

In the Federal Government, the long, tedious process of agency preparation of budgetary estimates for program needs, followed by the numerous levels of critical review within the agency, at the Bureau of the Budget, and by the President, reaches its climax when the budget document reaches the Congress for final legislative action. It is in the Congress, and more particularly in the spotlight of Congressional Committee hearings, that the agency renders an acceptable or unacceptable account of performance. It is here that the agency presents its justification of each of its major programs by content, by

31) Report on *Budgeting and Accounting, supra,* pp. 15-16. There is some disagreement as to the relationship of capital budgeting and performance budgeting. See especially „Symposium on Budget Theory", *Public Administration Review,* Vol. X, No. 1, Winter 1950, pp. 26-27.

cost, by necessary or contemplated changes, and by rate of progress achieved. And finally, it is according to the judgment of the Congress, formalized in the appropriation Acts, that the agency programs continue to exist or not. Surely then, these appropriations should in form and structure indicate that the Congress concentrated its attention on spending public funds according to some general plan, which provided for the most equitable allocation of resources among alternative programs, and the determination of policies and priorities according to the most pressing social needs. If the appropriation Acts were made on a performance or program basis, they would no longer emphasize unduly organizational rigidities which do not necessarily reflect program operations. Instead, appropriation legislation would tend to encourage the responsible administrators to arrange their operating organizations in such a way as to most effectively achieve program ends for which they are responsible.

The need for a complete study and general overhauling of the Federal appropriation structure has long been apparent to students and practitioners of budgetary administration. The Hoover Commission in its report on *Budgeting and Accounting* recommended that such a survey be undertaken without delay. The Commission stated:

> „The present appropriation structure underlying the budget is a patchwork affair evolved over a great many years and following no rational pattern. In some areas of the budget, there are entirely too many appropriation items; in others perhaps too few. Some appropriation items are exceedingly broad in scope; others are narrow on account of excessive itemization. Appropriations for a particular function appear in different places. In spite of recent simplifications, the language of some appropriation items remains a jungle of detailed provisions.....
>
> „The appropriation structure not only affects the presentation of the budget estimates, but runs to the root of management and fiscal responsibility. Departmental management is complicated and fiscal responsibility is diffused when single bureaus or functions are financed from diverse appropriations.
>
> „The appropriation structure is further complicated by several different kinds of authorizations such as annual, no-year, and permanent appropriations, reappropriations, contract authorizations, and appropriations to liquidate contract authorizations. ...Certainly a comprehensive survey of existing appropriations practices looking toward simplification of appropriation structure, language, and procedure is long overdue. The revision of these practices should be made along the general lines and in accordance with the underlying purpose of the performance budget" [32]).

In participating effectively in a fully developed performance budget system for the Federal Government for what goals should the Congress strive? If the legislature wishes to continue to carry its full share of responsibility in determining national public policy it seems essential that the following improvements be made:

[32]) Report to the Congress, *supra*, pp. 12-13.

1 - The appropriation structure should be revised to correspond to the functional lines of the performance budget.
2 - The *number* of „separate" appropriation bills should be sharply reduced.
3 - The *variety* of appropriations should be reduced to the lowest number of kinds necessary for long-range planning and program control.
4 - The budget calendar should be modified, both in terms of the most acceptable length of the regular fiscal period and a possible longer period for capital budget items and long-range programs.
5 - Such accounting records and financial reports as are necessary for intelligent Congressional action should be made mandatory.

Conclusion.

Performance budgeting in the Government of the United States is well under way. Significant improvements have been made within many of the agencies and departments as well as on a government-wide basis. The major elements of performance budgeting have been isolated and generally agreed upon.

Ideally, in the establishment of a performance budget system *all* elements of improvement or change should move forward simultaneously. No one of these elements stands alone. So intertwined are such fundamental matters as work programs, work measurement, management, improvement, accounting systems, performance reporting, and appropriation structure, that each becomes dependent upon the other for its own measure of success. On the other hand, no one aspect of performance budgeting should remain static merely because some other part is unperfected. For improvement in one area stimulates and encourages other improvements and the interactions of all will finally determine the level of achievement.

While performance budgeting should never be regarded as a magic formula for the cure of all governmental weaknesses, it can provide a meaningful basis for administrative planning, executive coordination, legislative decisions, and administrative accountability. It could, if properly implemented, go a long way toward achieving coordination within the far-flung Executive Branch of the Federal Government, and vastly improve the relationships between the Legislative and Executive Branches, and between the legislature and the agencies and departments. More important, potentially it could provide the means by which the vast empire of Government could become more meaningful to the ordinary citizen who helps pay its costs, and who at the present time is lost in his attempt to understand how to help keep his government „responsible and responsive."

LES BUDGETS DE PERFORMANCE AUX ETATS-UNIS [1])

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RÉSUMÉ

Depuis 1939, les méthodes adoptées aux Etats-Unis pour l'établissement du budget public ont connu une évolution et ont subi des améliorations sans précédents dans l'histoire de ce pays. La loi de 1921 sur le budget et les comptes (42 Stat. 20) introduisait la notion de budget exécutif dans le système administratif fédéral des Etats-Unis. Cependant ce ne fut qu'en 1939 que l'on installa l'Executive Office (Bureau Exécutif) du Président. Depuis cette date, le rôle que joue le Président dans le processus d'élaboration du budget s'est graduellement accentué et à présent, le Président se trouve au centre de l'administration budgétaire. Il expose les grandes lignes de son programme, qui forment la charpente du budget des divers organes administratifs; la loi le charge de élaboration du budget et, entre autres, de la coordination de ses nombreuses parties; dans son message au Congrès, il commente son programme de dépenses et de recettes et sollicite l'approbation de son projet budgétaire; il est chargé de l'administration du budget après que le Congrès a adopté celui-ci; enfin, il doit périodiquement présenter au Congrès un rapport d'exécution pour fournir la justification des divers projets que comporte le budget et l'exécution de ces projets.

Le développement du concept d'un „budget de performance" ne constitue que l'un des nombreux aspects de l'amplification de la tâche

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[1]) Une grande partie de la documentation du présent article sera publiée par l'auteur dans un ouvrage sur *l'Administration budgétaire du Gouvernement des Etats-Unis* qui paraîtra sous peu.

dévolue au Président dans le domaine de l'administration budgétaire. Ce développement ne doit être considéré que comme étant l'une des tendances importantes qui se manifestent dans l'ensemble de ce domaine. En décembre 1951, l'auteur a publié dans cette revue un article intitulé „Tendances actuelles dans l'élaboration du budget du Gouvernement des Etats-Unis" [2]). C'est dans le cadre de cet exposé plus vaste qu'on doit lire le présent article sur le budget de performance [3]).

Définition

Le concept d'un budget de performance, repris en 1949 par la Commission d'Organisation de la Branche Exécutive du Gouvernement (généralement connue sous le nom de „Commission Hoover") tend surtout à accorder une importance fondamentale aux *tâches que doit réaliser le Gouvernement* plutôt qu'aux crédits à dépenser. Aux Etats-Unis, où le budget national annuel approche de 100 milliards de dollars et où plus de cinquante millions de personnes contribuent à alimenter le Trésor public, l'idée *des tâches que doit réaliser* le Gouvernement acquiert une signification effective.

Le budget de performance est fondé sur les activités des divers organes et départements gouvernementaux et sur les buts qu'ils poursuivent et non pas exclusivement sur des rubriques de dépenses et des unités organiques. Voici la recommandation au sujet du budget de performance que formula la Commission Hoover:

> „Nous recommandons la modification fondamentale de l'ensemble des conceptions présidant à l'établissement du budget du Gouvernement Fédéral et l'adoption d'une méthode budgétaire basée sur les fonctions, les activités et les programmes. Nous désignons un budget établi ainsi sous le terme de ‚performance budget' (budget de performance)" [4]).

Le Budget de Performance — Une Idée Ancienne.

Bien que l'introduction de la notion du budget de performance à l'échelon gouvernemental fédéral des Etats-Unis doive être attribuée à la Commission Hoover, l'historique de cette conception remonte à près d'un demi siècle. A diverses époques et à divers endroits, on a appelé ce type de budget, budget „fonctionnel", budget „d'activité" ou budget „de programme". Dans diverses parties des Etats-Unis, des villes progressistes ont eu recours, sous une forme ou une autre à

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2) *Finances Publiques,* décembre, 1951, pp. 319-337.

3) Voir également l'article de l'auteur intitulé „Budgetary and Governmental Theory as Reflected in Presidential Budget Messages" dans *Revista do Servico Publico,* décembre, 1945, pp. 5-26.

4) U.S. Commission on Organization of the Executive Branch of the Government, *Budgeting and Accounting,* Report to the Congress, (Washington: Government Printing Office, 1949) p. 8.

ce genre de budget. Quelques Etats ont établi des budgets „de programme". Le Maryland examine à présent très sérieusement l'adoption d'un budget „de programme". La Californie établit ses crédits budgétaires sur la base de programmes. Un certain nombre d'organes et de départements fédéraux ont depuis plusieurs années justifié leurs activités sur la base de programmes.

Cependant, quand fut publiée la recommandation catégorique de la Commission de la Branche Exécutive du Gouvernement, de nombreux fonctionnaires fédéraux eurent des hésitations. Que donnerait en pratique le „budget de performance" et quelles en seraient les répercussions? Comment serait-il interprété par le Bureau du Budget, par le Congrès, plus particulièrement par les Commissions des Crédits budgétaires des Chambres du Congrès et finalement par chaque organe de l'administration gouvernementale lui-même? Près de quatre années après la recommandation faite par la Commission, on n'a pas encore les réponses complètes à ces questions. Cependant, il est généralement admis que *l'élaboration du budget de performance comprend:*

a - *l'établissement et l'adoption d'un plan d'activités et de programmes pour une période de temps déterminée;*
b - *l'ajustement du coût des programmes aux ressources; et*
c - *la réalisation du plan autorisé suivant un planning et moyennant une dépense ne dépassant pas les ressources disponibles.*

Si l'on veut que ce plan de travail ait une signification réelle, il doit faire partie d'une politique publique générale et comprendre la définition d'objectifs, la conception de programmes de travail et de méthodes fondamentales permettant de réaliser les objectifs, la prévision de ce qui doit être accompli dans des laps de temps déterminés et le coût d'exécution. Ainsi le processus budgétaire ne se rapporte pas seulement à des dollars et à des cents, mais bien davantage aux programmes et aux activités, aux restrictions et aux obligations, à la vie et aux biens de ceux qui y sont intéressés de près ou de loin. Ce processus implique une activité ininterrompue consistant à aménager, à autoriser et à administrer les intérêts d'un corps social.

L'analyse plus approfondie du processus budgétaire actuel aux Etats-Unis fait apparaître qu'il implique des *décisions vastes mais explicites*. Ces décisions sont souvent d'une nature si complexe qu'elles ne semblent pas correspondre à un schéma méthodique. Cependant, une étude approfondie de l'élaboration d'un budget et des budgets eux-mêmes, révèle l'existence de plusieurs aires de décisions fondamentales qui, à leur tour, peuvent être définies comme les processus qui étayent l'élaboration du budget public.

Ces processus peuvent être définis comme suit:

1 - Quelque part et d'une façon ou d'une autre, on procède ou l'on doit procéder à l'examen et à l'analyse de tous les *besoins* des habitants de la jurisdiction à laquelle ce budget s'applique;
2 - A un certain moment, on choisit parmi ces besoins ceux qui sont du ressort du Gouvernement et qui, par conséquent, seront compris dans le plan des activités gouvernementales;
3 - A un certain moment, on doit établir les ressources fiscales nécessaires pour faire face aux dépenses qu'impliquent les activités projetées;
4 - Les ressources doivent être attribuées à et réparties entre les divers programmes et activités autorisés;
5 - Vient ensuite la direction et l'administration des plans incorporés dans et autorisés par le budget; et finalement
6 - Il devrait y avoir une comptabilité concernant les réalisations et la justification de la façon dont le budget est administré.

On peut voir aisément que ces divers processus ou aires de décisions s'étendent à tous les aspects de l'élaboration du budget, de son adoption et de son administration. *L'élaboration du budget* est l'aspect que l'on a défini ci-dessus comme étant la préparation et l'adoption d'un plan d'activités pour une période de temps déterminée et l'ajustement des dépenses qu'implique le programme, aux ressources dont on dispose. *L'administration du budget* est l'aspect que l'on a défini ci-dessus comme étant l'exécution du plan d'activités autorisé (approuvé par le Congrès sous la forme d'une loi budgétaire) suivant un plan d'exécution et moyennant des dépenses répondant aux ressources qui sont disponibles. Les six processus comprennent les projets et les décisions à longue portée et divers programmes et décisions à courte portée. En outre, il est inévitable qu'entre les étapes de l'élaboration, de l'adoption et de l'administration du plan, des modifications se produisent et des révisions s'imposent inévitablement. De nouveaux besoins apparaissent et d'anciens besoins disparaissent. Le budget doit posséder la souplesse nécessaire pour permettre l'examen et le réexamen de toutes les contingences. C'est pourquoi, les six processus réagissent constamment les uns sur les autres. Aucun d'eux ne peut être entièrement séparé ou isolé. Aucun de ces processus n'est statique — tous se meuvent dans le cadre du plan progressif plus vaste. Ensemble, ils se meuvent circulairement, chacun réagissant sur l'autre et sur l'ensemble du processus dynamique. Si le processus de l'élaboration du budget public est envisagé de cette manière, il atteint le centre même de la vie sociale, économique et politique et il reflète les philosophies combinées des individus et des groupes qui y participent, soit individuellement,

soit collectivement. Quand il est présenté au Congrès, le budget représente des décisions du pouvoir exécutif sur la façon de répartir des ressources limitées entre divers programmes. *Le budget tel qu'il est finalement adopté par le Congrès constitue le document officiel qui définit les décisions définitives, qui sont le reflet des compromis administratifs et politiques traduits dans des programmes déterminés.*

Adoption par le Pouvoir Législatif du principe du „Budget de Performance"

En votant les *National Security Act, Amendments of 1949* [5]), le Congrès des Etats-Unis a décrété le premier cadre légal en vue de l'élaboration d'un budget de performance à l'échelon national. Les exigences spéciales d'un budget de performance ont été prévues dans la section II de la loi qui amende le *National Security Act de 1947*. Ces exigences s'appliquaient au département de la Défense et à ses trois administrations militaires le département de l'Armée, le département de la Marine et le département de l'Aviation.

En 1950, le Congrès des Etats-Unis prévoyait la présentation du budget à l'échelon gouvernemental suivant la formule du budget de performance. Le *Budget and Accounting Procedures Act de 1950,* [6]) (Loi sur les procédures relatives au Budget et aux Comptes) bien que n'employant pas le terme „budget de performance", prévoyait que:

> „Le Budget déterminera suivant la forme et les détails qu'il plaira au Président de fixer — a - les fonctions et activités du Gouvernement; b - toute autre classification des données qui semblera souhaitable; c - un ajustement des données sommaires se rapportant aux dépenses, aux crédits budgétaires proposés" [7]).

On a interprété cette disposition de la loi dans le sens d'un budget de performance à l'échelon gouvernemental, particulièrement en considération du „Conference Report" concernant le projet de loi déclarant que les mots „budget de performance" avaient été éliminés de l'amendement du Sénat parce que superflus et pouvant peut-être même devenir ultérieurement restrictifs [8]).

Déjà avant le vote final de la loi, le Directeur du Bureau du Budget des Etats-Unis a annoncé par un communiqué de presse, en date du 4 août 1949, que le Budget du Gouvernement des Etats-Unis

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[5]) 63 Stat. 578.

[6]) 64 Stat. 832 (adopté le 12 septembre 1950).

[7]) Titre I, section 102, amendant la section 201 de la *loi sur le Budget et les Comptes de 1921.*

[8]) Voir Congrès des Etats-Unis. Chambre des Représentants. Committee on Conference. *Loi sur les procédures relatives au budget et aux comptes de 1950,* Conference Report No. 3030 qui doit accompagner H.R. 9038, 81e Congrès, 2e Session (Washington: Government Printing Office, 1950), pp. 16-17.

afférent à l'année 1951 serait présenté conformément à la formule d'un budget de performance et que plus de 90 % des dépenses proposées seraient ventilées par projets d'activités définissant des programmes et déterminant les dépenses [9]).

Mise en oeuvre du concept du Budget de Performance.

Au fur et à mesure que les divers organes du Gouvernement Fédéral furent gagnés partiellement ou complètement à l'idée d'un budget de performance, il devenait évident que ce concept impliquait beaucoup plus qu'une simple forme de présentation du rapport budgétaire destiné aux autorités législatives. Il comporte une philosophie de gestion avec toutes les conséquences administratives afférentes à la mise en oeuvre d'une philosophie de ce genre. C'est pourquoi, sans qu'on ne doive jamais minimiser l'importance de la présentation matérielle du rapport budgétaire, le problème fondamental qui se pose en matière d'élaboration d'un budget de performance consiste dans les modifications qui sont nécessaires dans le planning, l'organisation et la direction des activités administratives du Gouvernement de façon à donner une signification et une réalité à ce concept. Si ceci n'est pas réalisé, il est possible que l'essentiel du budget de performance fasse défaut, alors que le document budgétaire épouse la forme d'un budget de ce genre.

L'expérience pratique acquise à ce jour tend à indiquer que la mise en oeuvre d'un budget de performance implique de nombreux problèmes. L'élaboration de systèmes de budget de performance pleinement développés et la présentation des documents s'y rapportant nécessiteront des années d'étude et d'amélioration, si l'on veut parvenir à des réalisations de premier ordre. Il faudra améliorer les plans d'activité, ce qui exigera que soient réétudiés et rendus plus clairs les programmes et les objectifs des organismes ainsi que les parties constituantes de chacun de ces programmes et de ces objectifs. Dans de nombreux budgets, il faudra faire une distinction entre les dépenses de capital et les dépenses courantes. Il faudra améliorer les comptes-rendus explicatifs et rendre plus clairs les rapports concernant l'exécution des programmes et fournir, quand cela est possible ou souhaitable, des documents se rapportant à l'importance de la tâche et aux prix unitaires. Les plans d'exécution par objets, qui ont occupé une place si importante, devront être remaniés de façon à en éliminer les détails, particulièrement en ce qui concerne les plans d'exécution se rapportant à des services isolés.

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[9]) Communiqué de presse du Bureau du Budget, 4 août 1949. Voir encore „Federal Budget on Performance Basis", *National Tax Journal,* Vol. II, No. 3 (septembre 1949).

Les organismes qui ont des activités commerciales devront, quand ils élaboreront leur budget, envisager des pratiques commerciales meilleures, — les systèmes de comptabilité doivent être établis sur une base cumulative et le prix de revient doit être calculé quand la chose est possible ou souhaitable. Les organismes se livrant à des travaux d'étude ou scientifiques devront sensiblement améliorer et rendre plus claire la description de leurs programmes, de façon que la valeur réelle de leurs projets apparaisse nettement; ils devront se constituer une documentation relative au coût des études antérieures, de manière à améliorer les estimations quant à l'incidence financière des travaux de recherche et de perfectionnement projetés.

Il s'en suivra que l'agencement des arrêtés et des lois concernant les crédits budgétaires devra être remanié en vue de les ajuster aux classifications budgétaires et comptables. Il est évident qu'il faudra peut-être des années pour atteindre ce but, spécialement à l'échelon gouvernemental, en raison de la rigidité et de la complexité que présente à l'heure actuelle la structure budgétaire.

On a accompli d'importants progrès en ce qui concerne la transformation des budgets en systèmes de budget de performance tant dans les organismes relevant du Gouvernement fédéral qu'à l'échelon du Gouvernement même. De plus en plus, la branche exécutive incorpore au *Budget du Gouvernement des Etats-Unis* qu'elle présente au Congrès, le concept du budget de performance. En particulier, on a fait une tentative sérieuse pour introduire dans une seule loi budgétaire les dépenses qu'implique un vaste programme. Dès janvier 1947, le rapport budgétaire qui fut transmis au Congrès contenait un système de classification par fonctions des programmes et des dépenses du Gouvernement [10]).

La teneur et la présentation du rapport budgétaire pour l'année fiscale 1951, accorde une plus grande importance encore aux programmes de travail et aux réalisations sur lesquelles étaient basées les nécessités financières. Les longues énumérations d'emplois civils ont été supprimées et remplacées par un exposé sommaire relatif aux cadres du personnel, et placé en tête des engagements classés par object. Pour quatre départements et un organisme, on a présenté une proposition de crédits budgétaires conçue suivant un modèle modernisé.

Le budget fédéral pour l'année fiscale 1952, présente une amélioration sensible en ce qui concerne l'exposé des programmes et des réalisations. Les exposés descriptifs indiquaient plus clairement et de façon plus détaillée la nature des activités secondaires. Dans de

[10]) Bureau du Budget des Etats-Unis, *le Budget du Gouvernement des Etats-Unis pour l'année fiscale prenant fin le 30 juin 1948,* (Washington: Gouvernment Printing Office, 1947), p. 1353.

nombreux cas, on peut constater que les plans d'activité étaient établis plus minutieusement. Le budget fédéral pour l'année fiscale 1953 a fait siennes ces diverses améliorations.

Une version simplifiée du budget connue sous le nom de *„The Federal Budget in Brief"* (Sommaire du budget fédéral) et contenant une présentation graphique des programmes gouvernementaux tels que le Président les présente au Congrès, fut joint au budget des Etats-Unis pour les années fiscales 1951 et 1952. *Le Federal Budget in Brief* pour l'année fiscale 1953 présente clairement les dépenses budgétaires sous la forme de onze programmes gouvernementaux classés suivant les vastes buts et fonctions qu'ils sont destinés à financer [11]).

Principaux éléments d'un Budget de Performance.

L'élaboration d'un budget de performance à l'échelon national présente des difficultés non seulement pour l'Administration mais aussi pour le Congrès des Etats-Unis. Pour éprouver la viabilité de cette méthode budgétaire, on devra procéder à des analyses consciencieuses, à des systématisations, à des standardisations appropriées et à une réestimation incessante des méthodes qui sont en pratique dans les branches exécutive et législative. Dans son sens le plus complet, le concept de budget de performance implique une théorie de la gestion qui peut être puisée en partie aux meilleures expériences du passé associées, dans l'avenir, avec des études incessantes et une attention soutenue. Si on lui donne une interprétation plus restreinte, il est douteux que ce système budgétaire puisse se maintenir à l'échelon du Gouvernement national. Une définition plus étroite pourrait aisément dégénérer en une simplification excessive qui ne serait pas appropriée et ne conviendrait pas à un système gouvernemental aussi complexe que celui des Etats-Unis.

Peut-on dégager, par l'étude d'une unité administrative, des principes théoriques et des modalités d'application régissant un budget-programme ou budget de performance proprement dit et quels en sont les indices? L'auteur estime que dans un véritable système de budget de performance, certains facteurs sont de toute façon requis. Il se peut que le temps, l'expérience et les recherches ultérieures viennent ajouter de nouveaux éléments ou en éliminent d'autres qui paraissent actuellement évidents. Mais il semble raisonnable d'admettre que les facteurs principaux que l'on retrouve dans pareil système comprennent à l'heure actuelle:

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11) Ce document comporte en outre des catégories de dépenses afférentes aux „Services d'Administration Générale" et aux „Intérêts de la Dette Publique".

1 - L'utilisation des activités et des programmes de travail.
2 - L'adoption de la mensuration du travail et l'application de standards de performance.
3 - Le perfectionnement des rapports administratifs en vue d'y incorporer des rapports de performance, et l'établissement d'un système progressiste de documentation suivant des méthodes basées sur les fonctions.
4 - L'instauration et le maintien d'un système de comptabilité sur une base cumulative et l'amélioration des méthodes de comptabilisation du prix de revient, là où c'est possible ou souhaitable.
5 - Des dispositions en vue de l'instauration d'un vaste système permanent d'analyses, d'évaluations et d'améliorations des méthodes de gestion.
6 - La présentation, la justification et l'autorisation des dépenses publiques classées en deux catégories principales au moins — dépenses courantes et dépenses de capital.
7 - La révision de la structure des crédits budgétaires en fonction des programmes et des activités qui doivent être mises en oeuvre.

Aucun des facteurs mentionnés ci-dessus ne peut être isolé. La valeur de chacun d'eux dépend essentiellement de la mesure dans laquelle il réagit sur et agit en relation avec chacun des autres facteurs et l'ensemble. C'est l'ensemble de ces réactions mutuelles qui donne sa pleine signification au budget programme ou de performance.

Aux Etats-Unis, le concept d'un budget de performance est en bonne voie. Dans bon nombre d'organisations et de départements et même à l'échelon gouvernemental des améliorations significatives ont été réalisées dans ce sens. On a dégagé les principaux facteurs présidant à l'élaboration du budget de performance et en règle générale on s'est mis d'accord à leur sujet.

Idéalement parlant, dans l'établissement d'un système de budget de performance *tous* les facteurs d'amélioration ou de modification devraient avancer simultanément. Aucun de ces facteurs n'est détaché des autres. Des éléments fondamentaux, tels que les programmes de travail, la mensuration du travail, l'amélioration de la gestion, les systèmes comptables, les rapports sur les réalisations et la structure des crédits budgétaires sont si étroitement entrelacés que, en ce qui concerne le degré de sa propre réussite, chacun de ces éléments dépend des autres. D'autre part, aucun aspect du budget de performance ne peut demeurer statique uniquement parce que quelque autre aspect tarde à se perfectionner. Car l'amélioration dans un domaine constitue un stimulant et favorise d'autres améliorations, et les réac-

tions mutuelles de toutes détermineront en fin de compte le niveau de réalisation.

Bien que le budget de performance ne puisse jamais être considéré comme une formule magique pouvant porter remède à toutes les faiblesses gouvernementales, il peut constituer néanmoins une base importante pour le planning administratif de la coordination de l'activité de l'exécutif, les décisions législatives et la comptabilité publique. Il pourrait, s'il était mis en oeuvre de façon adéquate constituer un sérieux progrès dans la voie menant à la coordination du vaste domaine des branches exécutive et législative du Gouvernement fédéral et améliorer grandement les relations entre le pouvoir exécutif et le pouvoir législatif et entre ce dernier et les organes et départements gouvernementaux. Et ce qui est plus important encore, il pourrait fournir, peut-être, les éléments grâce auxquels la vaste machine gouvernementale pourrait acquérir une plus grande signification aux yeux du citoyen ordinaire, qui en supporte les dépenses et qui à l'heure actuelle ne parvient pas à se rendre compte comment il peut contribuer à faire en sorte que son Gouvernement garde le sens de la responsabilité et tienne compte des besoins de la collectivité.

THE CAPITAL LEVY AFTER WORLD WAR I

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I - THE POSTWAR CRISIS (1918—1925) AND THE CAPITAL LEVY [1])

One major expression of postwar discontent which flared up in Europe after World War I was aroused by the need for some form of conscription of wealth or penalization of war profiteering in order to balance the moral accounts of the war economy [2]). Conscription of war wealth became converted into a capital levy when it was explicitly directed against the „vast paper entanglements" and „paper shackles" which Keynes at the time declared were „in the highest degree ... artificial, misleading and vexatious" [3]). The impulse to fiscal action was fostered by the leaders of British labor and their middle class inspirers who could approach the problem without that aversion to tax-gadgetry which distinguished their Marxian colleagues.

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[1]) This is a companion study to another entitled, „The Capital Levy and Deadweight Debt in England 1815—1840", Journal of Finance (fortcoming March 1953).

[2]) On this wave of discontent which had been bottled up by wartime controls and repression and which everywhere „seethed" on the Continent and which was manifested in England, see L. Trotsky, *History of the Russian Revolution* (New York, 193), I, 16-32, 78-100; J. Schumpeter, *Capitalism, Socialism and Democracy* (New York 1942) 355, 359; C. A. Gulick, *Austria from Hapsburg to Hitler* (Berkeley 1949), I, chapter II; G. D. H. Cole, *A History of the Labour Party from 1914* (London 1948), 103-120; Gaston Jèze, „The Economic and Financial Position of France in 1920", *Quarterly Journal of Economics*, XXXIV (1920) 170 ff. The grounds for discontent were varied and stemmed from the prolonged and awful slaughter of the war together with the only slightly restricted process of wartime profiteering and inflation which took its toll among the belligerent countries. See J. R. Hicks, U.K. Hicks and L. Rostas, *The Taxation of War Wealth* (Oxford 1940) 57-74; J. M. Keynes, *How to Pay for the War.* (New York, 1940) 57-74. Even in Britain where relatively stiff excess profits taxation was applied, the average effective rate of tax was only some 34 percent not counting large-scale avoidance and evasion.

[3]) J. M. Keynes, *Economic Consequences of the Peace* (New York, 1920) 279 ff.

Under the leadership, it appears, of Sidney Webb and other Fabians the Labor Party took the lead in pressing for the conscription of war wealth during the war and in inscribing the project of a capital levy and its accompanying „revolution in national finance" as a primary plank of their famous postwar program [4]).

On the Continent a similar movement made headway without the initial support of the leadership of the Marxist parties but with the

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[4]) For a bibliography of the pamphlet and periodical discussion of a capital levy during the war in Britain, see A. W. Soward and W. E. Willan, *The Taxation of Capital* (London, 1919), 302 ff.. Sidney Webb's sponsorship of the capital levy was indicated in three separate publications from 1916 through to 1922. The work which he edited and participated in as co-author, *How to Pay for the War* (Fabian Research Department, London, 1916), x, 261 ff., proposed a non-progressive flat 10 percent levy motivated by the strong conviction that the war debt must not be carried over in order, strangely enough, to be ready „for the next war". By the time of his 1918 lecture, *National Finance and a Levy on Capital* (delivered in May, 1918 and published by the Fabian Society, London 1919), a thorough-going capital levy scheme had developed. See finally his article, „The Financial Policy of the British Labour Party", *Manchester Guardian,* European Reconstruction Supplement Series, 27 July 1922, 271-274. Detailed search through Fabian and Labour party materials and parliamentary proceedings would doubtless bring foth other contributions. See also Sidney Arnold, „A Capital Levy: The Problem of Realisation and Valuation", *Economic Journal,* XXVIII (1918), 157-168; F. W. Pethwick-Lawrence, *A Levy on Capital* (London, 1918); Philip Snowden, *Labour and National Finance* (London, 1920), Chapters II, IV, V; J. A. Hobson, *Taxation in the New State* (London, 1919), 159-229; Hugh Dalton, *The Capital Levy Explained* (New York, 1923). In addition to these formalized publications there were a host of campaign speeches and parliamentary addresses. In the program of the Labour Party adopted in 1918, *Labour and the New Social Order,* „a historical document of the greatest significance", a national revolution in finance turning around a capital levy was the third main support of the program. See Cole, *History,* 56-58, 70. For additional details see A. Comstock, „From Capital Levy to Surtax", *American Economic Review,* XVIII (1928), 9 ff.; G. Jèze, „Le rejet de l'impot extraordinaire sur le capital comme moyen de liquider les charges... Angleterre", *Revue de Science et de Legislation Financiers,* XVIII (1920), 401-496. Then there were also the tracts and articles by professional economists (Pigou, Edgeworth and Keynes) which supported the Levy: A. F. Pigou, *The Political Economy of War* (London, 1921), 189-232; F. Y. Edgeworth, *A Levy on Capital for the Discharge of Debt* (Oxford, 1919); Keynes, *Economic Consequences,* 280. Keynes wrote at more length in the *Manchester Guardian,* European Reconstruction, 27 July 1922, introduction. By 1923 Keynes, according to an account in R. F. Harrod, *The Life of John Maynard Keynes* (New York, 1951), 338, plainly opposed the capital levy in an election speech. But the detailed analysis of the capital levy and debt problem in the 1923 work on *Monetary Reform* (New York, 1924), which Harrod justly praises, indicates, with tolerable hedging, the levy solution. This solution, Keynes concluded, „is to be regarded as the fairest and most expedient method of adjusting the burden of taxation between past accumulations and the fruits of present efforts whenever in the general judgment of the country the discouragement to the latter is excessive". *Ibid.,* 77. Whereas this situation seemed immedately after the war to have existed, by 1923 it seemed "rather more doubtful". Keynes regarded devaluation and a capital levy as clear alternatives and if his recommendation of devaluation in the British case was rejected and the old parity was opted for — i.c., "if the level of sterling prices is intentionally lowered, a levy may be required". *Ibid.,* 75. However, by the Colwyn Committee hearings of 1924 and 1925 Keynes opposed the levy.

aid in central Europe of the publications of an eccentric and brilliant Austrian economist and publicist, Rudolf Goldscheid. He helped to disclose the latent connections between the drive for socialization, the relief of the overburdened debt state and the important role of fiscal policy in the postwar period [5]).

Aside from the Marxists, a broad public opinion favoring drastic measures for the conscription of wealth developed on the Continent. Important leaders of liberal middle class parties identified themselves with this demand which was advocated by many independent publicists and three harassed finance ministers who were concerned about the disposal of what to them seemed an intolerable growth of debt [6]). A number of prominent Continental economists including Karl Diehl in Germany, Joseph Schumpeter in Austria and Gaston Jèze in France published on this question [7]). And in the ranks of the labor and trade

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[5]) On the lagging role of the Marxist leadership in connection with the capital levy demand, see G. Maupas, *Le Prélèvement sur le Capital* (Paris, 1929), 40-46. In addition to the work of Goldscheid, *Staatssozialismus oder Staatskapitalismus, Ein finanz-soziologischen Beitrag zur Lösung des Staatsschulden-Problems* (2d ed., Vianna, 1917), a work which in a few months went into new editions; see also his smaller but equally impassioned work, *Sozialisierung der Wirtschaft oder Staatsbankerott, ein Sanierungsprogramm* (Vienna, 1919). Considered as „Phantastic" when advocated in his first book, the demand for a capital levy by 1919 was „taken for granted"; yet, lamented Goldscheid, „allerdings sind jetzt sind es nur einige Wenige unter den führende Sozial-demokraten die meinen Grundgedanken aufgenommen haben". The social democracy was warned that it „wirtschaftliche ebenso ungerüstet in den Frieden einzugehen, wie sie politisch ungerüstet in dem Krieg gestürzt wurde". *Ibid.*, 18. See also *Staatssozialismus,* ix, 11, 125 ff. It appears that Goldscheid's views were adopted chiefly in Switzerland. Cf. W. Rappard, „Democracy versus Demogogy", *Political Science Quarterly,* XXXVIII, 361 ff. For a characteristic expression of the tendency of more alert social democratic leaders to think in terms of prewar policy and program, see Karl Kautsky, *The Labour Revolution* (trans., London, 1925) with its complete inattention to the problems of fiscal reform or debt burdens.

[6]) The development of interest both by prominent writers and public officials is traced in detail by Gaston Jèze in his copious contemporary account. See his „L'impot extraordinaire sur le capital comme moyen de liquider les charges financieres de la guerre", *Revue de Science et de Legislation Financieres,* XVII (1919), 169-211, 329-444; „Les Finances de Guerre de l'Angleterre", *ibid.*, 1-50; „L'impot extraordinaire sur le capital in Italie", *ibid.*, XVII (1920), 247-316. The Italian, French and German finance ministers endorsed the project of a capital levy and possibly a fourth (Schumpeter) might be instanced, though his support was predicated stricktly on its confinement to the kind of solution later worked out by „monetary reform". As Jèze noted, so conservative an economist as Einaudi, who was appointed on a governmental committee in 1919 to report on a levy, became an advocate and helped to prepare a vigorous report. See on this Einaudi's own account, „Taxes on Property and Property Increments in Italy", *Quarterly Journal of Economics,* XXV (1920), 108-138. See also E. Herriot, „The Idea of the Capital Levy for France", *Manchester Guardian,* Reconstruction, 27 July 1922, for a prominent statement by a middle class political leader.

[7]) See besides the works of leading English economists already cited the work of Jèze in France, who noted the inattention the solution had received in France as compared to Germany and Britain, and Einaudi in Italy. A bevy of writings appeared in Germany which were partly collected in a special issue of the

union movement itself there were autonomous stirrings, if the British experience is typical, in which the idea of a wealth tax or levy was generated spontaneously out of grievance at the conscription of manpower and profiteering of capital which had gone hand in hand during the war [8]).

The movement for a capital levy after World War I undoubtedly would not have gained the scope it did if the economic and political development of the preceding century had not eased substantially the technical problems of assessment and collection [9]). To varying degrees on the Continent, depending on the deeprootedness and breath of capitalist development and the continuity after the war in administrative and political systems, the levy was no longer technically precluded. In Britain and in Germany a skilled tax administration and public service had accumulated on a central or provincial level enormous experience in levying and administering complex taxes on incomes, corporations, property and sales [10]). While only Germany carried through a national assessment of wealth in connection with raising a wartime wealth tax, still in connection with the income tax administration wealth reporting and calculation was involved. The ease of assessment which this would bring in its train was also contributed to by developments on the taxpayer side. Practises with respect to record keeping and accounting, which were primitive a century ago, have been improved even in small enterprises and in many households. Finally — and this was most important — a large body of wealth running from a third to a half of the total had come during the century to carry its value written large on its entitlement (mortgage, bond, note, deposit, insurance account) or to have an imputed value readily calculable by reference to values established

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Schriften d. Vereins f. Sozialpolitik, *Die Neuordung der deutschen Finanzwirtschaft* (Bd. 156, 2v., ed., H. Herkner, Munich, 1918). For a full German bibliography, see Hubertus Herz, *Theorie der Substanzbesteuerung* (Berlin, 1938). In Austria, in addition to the work of Goldscheid, there was a pamphlet by J. Schumpeter, *Die Krisis der Steuerstaats (Graz, 1918).*

[8]) When the trade union leaders who appeared before the Colwyn Committee were asked whether they were familiar with a line of analysis developed in the work on the capital levy by Dalton, their spokesman replied: „No, I am not. I may say frankly that we approached this matter *de nouveau* as a representative body of working people. We did not study anybody else's theories at all; we came straight to it ourselves in our own way". Great Britain, *Report of the Committee on National Debt and Taxation* (Colwyn Report, Cmd. 2800, London, 1927, published with a main text and an appended volume of testimony, Testimony 362, Q 4948.

[9]) See detailed discussion in my „Capital Levy", Section II.

[10]) The extent of the improvement in civil service is portrayed tellingly in J. D. Kingsley, *Representative Bureaucracy* (Yellow Springs, Ohio, 1944), Chapter II, „The Ancien Regime" and Chapters III and IV. This also emerges from the comparative survey of Britain, France, Germany and the United States regarding civil service development. H. Finer, *Theory and Practise of Modern Government* (rev. ed., New York, 1949), Part VI, „The Civil Service", 709-959.

by a large volume of continuous trading recorded in open and regulated markets (common or preferred security shares) [11]).

Important and crucial assessment difficulties would have been encountered particularly in a levy carried through after a period of unsettled price change and where wealth assessment was not — as became the practise in postwar Germany — subject to uniform *nationall* assessment. Capital values except where self-appraised or gauged by unpressured sale, seem inherently tainted with some degree of arbitrariness. Securities traded in large volumes actually yield values embodying the judgements only of the buyers and sellers of the securities in question and extensible to other holders of the same security only by an arbitrary decision. Special motives for sale and purchase of securities influence many sales and price level averages even for a considerable period. Valuation data used in income-tax reporting are more or less conventional, depending upon rates of depreciation and base-date values adopted for accounting purposes. Local property tax assessments, available for realty in most western countries, are usable only after adjustment for regional disparities and acceptance of a mass of interpersonal inquities which are tolerated partly because the tax rate is relatively low [12]).

If these difficulties and crudities in assessment under the best conditions are substantial, it should not be overlooked that measures of redress and counteraction are available. It always is possible to apply special procedures to special categories or to permit liberal

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[11]) For Britain, see classification of forms of wealth in estates subject to death duties. Dalton, *Capital Levy*, 37 ff. In Germany the role of these forms of paper wealth is indicated by the fact that corporate issues (shares and bonds and debentures) ran to more than half the net value of business properties; mortgages ran to about 22 percent of the total value of land and buildings; while the role of financial intermediaries of all kinds (savings banks, credit associations, insurance companies) was a powerful one. *Statistisches Jahrbuch für das Deutsche Reich* (Berlin, 1938), 417, 435, 538-541. The returns on the property tax showed that various forms of paper wealth, which comprised the main bulk of the category „Sonstiges Vormögen" amounted to 40 percent of gross wealth reported and to 47 percent of net wealth of taxpayers assessed under the law in 1935. *Ibid.*, 543. For America the relationship of „liquid assets" and national wealth has been studied with care by A. A. Berle and F. J. Pederson, *Liquid Claims and National Wealth* (New York, 1934), Chapters V-VII, 70-116. Total liquid claims netted down for overlapping moved up from 16 percent of national wealth in 1880 to 20 percent in 1912 and 40 percent by 1930. *Ibid.*, 73. The value of listed stock exchange securities alone rose from 5.5 billion dollars in 1880 to 25 billion dollars in 1912, to 52 billions in 1922. The total asset value of all corporations ran higher than listed securities and approximated during the ,20's 35 to 40 percent of total national wealth. *Ibid.*, 105. Excluding the agricultural segment of the economy with its plentitude of small properties would have considerably lifted these ratio.

[12]) For these difficulties, see Shun H. Chou, *The Capital Levy* (New York, 1945), 4-8; Hicks-Rostas, *Taxation of War Wealth*, 183 ff., 268 ff.; H. L. Lutz, *Public Finance* (4th ed., New York, 1949), 365-420; Maupas, *Le Prélèvement*, 31-38.

access to administrative review. Prior research on securities pricing would isolate for needed adjustment unrepresentative stock market securities. Obviously, the authorities of any country without a previous system of national wealth taxation must anticipate a levy by some kind of general property assessment or registration. Undervaluation in the voluntary assessments could be discouraged by penalties and by giving the tax office the right to select certain real wealth in kind at the stated values. The quality of the assessment can be improved by reducing with high exemptions and category exclusions the number of eligible taxpayers and hence the load on the fiscal machinery [13]). If these possibilities for redress and adjustment are borne in mind, the judgment of the British internal revenue authorities, reaffirmed after enquiry by the Colwyn Committee, regarding the feasibility of the assessment for a property levy is explicable. It becomes difficult categorically to rule out a capital levy on grounds of inequities in assessment [14]). A margin of disparity in the treatment of taxpayers would exist even under ideal conditions but this disparity is hardly so completely beyond remedy by appropriate action or so disproportionate to need that a capital levy must be ruled out [15]).

[13]) For discussion of these measures of redress, see Goldscheid, *Sozialisierung,* 8, with his passionate indictment of the ruling groups for letting the best time pass with „Hin- und Herreden" instead of carrying out a registration and assessment of wealth. See also Hicks-Rostas, *Taxation of War Wealth,* 212; Pigou, *Political Economy of War,* 224 ff.; F. Somary, „Die Finanzielle Durchführung einer einmaligen Vermögensabgabe", *Die Neuorung der deutschen Finanzwirtschaft,* I, 90 ff; Einoudi, „Taxes on Property, *„loc. cit.,* 115 ff.; H. Shavell, „Post-war Taxation in Japan", *Journal of Political Economy,* LVI (1948), 132. Regarding the notorious problem of „settled estates" with their complex divisions of property under trust, even the Colwyn Committee did not lay much stock in the „inequities" which would result from the not over-nice but substantial formula proposed by the British Internal Revenue. *Colwyn Report,* 248 ff.

[14]) The Colwyn Committee found it could not withhold affirmation of the Board of Inland Revenue's judgement that though the assessment for a levy would be a „task of first magnitude" the „inherent difficulties" are not regarded as „too great to be overcome" and that they would be „less than in the case of the proposal for a levy on war wealth which was under consideration in 1920 and which they held to be workable." *Colwyn Report,* 248.

[15]) Equity and need are correlative in politics where the ethical standards are those of „responsible action" and not the „ethic of ultimate ends." See Max Weber's famous lecture, „Politics as a Vocation", *From Max Weber: Essays in Sociology* (Gerth and Mills, trans., New York, 1946), 120 ff. Hence the fact that „the adoption of a capital levy implies acquiscence in a lower degree of equity between similarly placed individuals than is usual in the British fiscal system" (Hicks-Rostas, *Taxation of War Wealth,* 272.) or that the levy is deemed „practicable' upon an altogether lower level of equity yield and efficiency than has hitherto contened us" (Sir Josiah Stamp, „The Capital Levy", *Studies in Current Problems in Finance and Government* (London, 1924), 203-271, particularly 233), is not irrelevant. But neither is it controlling, and the prominence with which it is stressed is about as misleading as attempts to waive aside the issue of inequity by stressing the elementary fact that all tax systems have their „inconveniences" and „inequities" or that „the financial scars incurred in our tremendous struggle with armed oppression will not be healed without much suffering whatever treatment we apply." Edgeworth, *Capital Levy,* 13.

The same development that brought easement to the assessment side of the problem of a capital levy also provided the basis for a solution to collection difficulties. The rise of new forms of paper wealth which were readily transmissable and which in their initial incidence do not entail responsibility for management obviously makes it possible to satisfy the obligations of the capital levy without disrupting established business organization or current processes of income flow. It was easy to collect from the „large, powerful and greatly respected class of persons well-to-do individually and very wealthy in the aggregate who owned neither buildings nor land nor businesses nor precious metals but titles to an annual income in legal-tender money" [16]). For a limited number of property-holdings, concentrated in agricultural property, proprietary business and city real estate, it would probably be necessary to take over mortgages or to work out installment arrangements. But these arrangements would be encountered less frequently and on a much smaller scale than before. It accordingly may be concluded that extension of the option or requirement for payment from the currency and public debt securities indicated during the Napoleonic discussion [17]) to various forms of paper wealth, including claims on intermediary financial organizations, would greatly widen the scope and enlarge the possible scale for capital levies. During the capital levy discussion opened up by the World War this was pointed out in considerable detail by a number of writers and publicists and it afforded the basis for the kind of capital levy actually proposed and considered in Britain, in Switzerland and to a lesser degree in France [18]).

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[16]) Keynes, *Monetary Reform,* 16. For an analysis by Keynes of the process of economic development of which this was the outcome, see his *Essays in Persuation* (New York, 1933), 213-219. As A. A. Berle put it in his provocative *Liquid Claims and National Wealth,* „should there be any general redistribution of wealth, it might prove easier to redistribute claims than physically to dispossess people of their property." *Ibid.,* 13.

[17]) See my „Capital Levy", Section II.

[18]) In Austria the oustanding analysis along this line was by Goldscheid, whose central purpose it was to provide the theoretical background and implications of a levy in kind. In the German discussion this line of analysis was advocated in very explicit form and with central emphasis by three participants in the capital levy debate. See J. J. Jastrow, *Gut und Blut fürs Vaterland* (Berlin, 1917); Felix Somary, „Die Finanzielle Durchführung einer einmaligen Vermögensabgabe", *loc. cit.,* 85-104; R. Kuczynski, *Unsere Finanzen (Das Reichsnotopher)* Berlin, 1919; Kuczynski, *Ein Reichs-finanz-Program für 1920* (Tübingen, 1920). For commentaries on this aspect of the German discussion and some summary of the positions taken, see R. Eichorn, *Die Einmaligen Vermögensabgaben im Deutschen Reiche* (Jena, 1925), 60 ff.; Herz, *Substanzbesteuerung,* 60 ff., 84 ff. In Switzerland, see G. Müller, *Bürgerliche und sozialdemokratische Finanzpolitik* (Berne, 1919 as cited and discussed in Rappard, „Democracy versus Demagogy", *loc. cit.,* 361 ff.). In England, see F. Pethwick-Lawrence, *A Levy on Capital,* Chapter IX, „Method of Payment"; Sidney Arnold, „Capital Levy", *loc. cit.* Webb, Pigou and Dalton did not lay stress on collection in securities but by

Some advocates of collection by paper wealth wanted to confine payment to those forms of gilt-edged investments which involved little or no risk [19]). Others would have extended the range of collection in kind to natural objects, such as precious jewelry and valuable pictures or real estate, which might have value for various operating government programs [20]). But the principle had become clear that „little would be paid in cash", that it was „of the essence of the new levy on capital" that it involve the „complete financial innovation" of being paid by the transfer of „certain forms of capital", that it signified not a displacement of income streams but a „shifting of wealth-claims", and that a levy „on a scale worth having could not be met out of the current consumption of the wealthy" who must rather „hand over assets to the Government" [21]).

But while the range and effectiveness of potential capital levy action was greatly extended by the ease with which collection could be enforced through transfer of paper wealth, this obviously has certain startling implications for the social order. The necessity of accepting payment of the levy by transfer of wealth claims would render it impossible for the government quickly to market its newly found wealth

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easy presupposition of it showed that the collection problem would be greatly eased. See Dalton, *Capital Levy,* 38 ff.; Pigou, *Political Economy of War,* 207. Pigou suggested that if arrangements were made to accept first-class securities or even „less readily marketable forms of security and other property", it was „very unlikely that with reasonable arrangments on these lines any considerable part of the levy would in fact be paid over in cash". The Colwyn Committee itself readlily assumed that securities would be taken in payment to an extent varying with the scale of the levy and other payment provisions. They „assumed" that „all trustee securities would be accepted in payment and possibly certain company debentures although we see great difficulty in the Government discriminating between one business and another". *Colwyn Report,* 265. L. V. Birck, in *The Scourge of Europe, The Public Debt* (London, 1926), advocated a levy collectible in kind. See *ibid.,* 143-152, particularly 148.

[19]) See Sidney Arnold's proposal, which extended only to trustee type securities. No such limit was presupposed by Dalton, Pigou, Pethwick-Lawrence or the Labour Party proposal. Hicks-Rostas, *Taxation of War Wealth,* 274 declare that „in the Twenties it would have been hardly conceivable for the Treasury to hold a miscellaneous portfolio of approved securities even for a short period". Of course, prudent standards evolved over the centuries for gilt-edged investment developed an abhorence for equities. But it is surely arrant nonsense to extend this principle to holdings in a cross-section of the equity position of British industry. There were many objections to taking securities involving voting rights or having control implications but assuredly financial risk was not one of them; in fact, the financial stake of the proceeds of the levy would be more assured if the holdings were concentrated in equities.

[20]) See Somary, „Finanzielle Durchführung", *loc. cit.,* 91, 103; Goldscheid, *Sozialisierung,* 34 ff.; Eichorn, *Einmaligen Vermögensabgaben,* 84 ff.

[21]) The citations in order of appearance are from *Colwyn Report,* 260; Pethwick-Lawrence, *A. Levy on Capital,* 62; „... eine schnelle Erhebung des Gesamtbetrages der Vermögensabgabe, da sie niemals in barem Gelde erfolgen kann zu einer Vermögensvershiebung grossen Stiles führen muss", Herz, *Substanzbesteuerung,* 84; Keynes, *Pay for the War,* 49.

and collect an equivalent value in current purchasing power [22]). Over time this mass of wealth could be cut down by gradual sale or conversion to non-equity type claims. But aside from the fact that this process would have to be slow, it would as such tend to depress the market for new investments and security issues unless it merely helped to absorb sustained inflationary pressure by trading equities for depreciating money. Hence for a rather considerable period the property would remain under government custody. And even though the property consisted for the most part of bonds and preferred stocks or merely scattered equity holdings, yet this custody must also involve rather considerable development of administrative and managerial organization to provide services of the type provided by investment trusts and mortgage companies [23]). In this process, too, it certainly would be found desirable to consolidate as much as possible the holdings by transfer or sale in order to simplify management and supervision problems and to fit into other government programs.

Even when applied on a small scale, this kind of fiscal action and wealth transfer must have significant effects on the political and economic regime. The action would strengthen the economic role of the state and the influence of its bureaucracy and would facilitate the extension or more effective functioning of state control or regulation over the relevant areas of economic life. It was with these factors in mind that Goldscheid emphasized that the capital levy in kind would not as such bring socialism or state-socialism but „partial socialization" constituting a „state-capitalism" or a kind of „repropriated state" [24]). But obviously as the scale of the levy action would rise and

[22]) See Pethwick-Lawrence, *A Levy on Capital,* 62 ff. The *Colwyn Report,* 264, stated that „this is so much a matter under the control of the Government that it seems not unreasonable to assume that arrangements could be made to avoid undue pressure on prices."

[23]) Even Henry Simons, in his *Personal Income Taxation* (Chicago, 1938), 28, evisaged in his liberal state considerable investment in corporate industry. „The techniques of a conservative investment business are fairly well established; and government bodies might, on a moderate scale, function quite as well as the investment departments of the better banks and insurance companies".

[24]) Goldscheid was readily accused of attempting by the capital levy in kind to carry out socialization. Herz, *Substanzbesteuerung,* 55 ff.; Diehl, „Einmalige Vermögensabgabe", *loc. cit.,* 81 ff.; Maupas, *Le Prélèvement,* 40 ff. And as an advocate of strong socialist measures this seemed to be the case. But Goldscheid was quite aware that a fiscally oriented capital levy would not be sufficiently drastic and would deposit property holdings too scattered in form to constitute direct socialization. See his *Staats-sozialismus,* 124, 130, 125-144, 165; and see *Sozialisierung,* 13, 44, 61, 65, 67 ff. The action would constitute a „partial socialization", the basis for effective socialist action by transforming the „verschuldeten Steuerstaat in den repropriierten Wirtschaftsstaat" (*ibid.,* 10), or would „prepare the transition" for a socialist economy (*ibid.,* 72) which itself was conceived or as extending over banking and insurance and, particularly, foreign trade. Yet Goldscheid was responsible for the identification of the capital levy with the socialist outcome since he frequently argued as if they were equivalent, that the capital levy to redeem debt would lead to the transfer of the „most important

the mass of wealth transferred by it would be larger or would include control over strategic segments of incorporated business organization — and this would tend to occur the more progressive the rate structure of the levy and the greater the impact on very wealthy persons — the „repropriated state" would tend to turn into the „socialized state." The socialization potential latent in the wealth transfer would rise to the surface and this at an accelerating ratio. On the other hand, if progressivity were minimized and if the impact of the levy were spread broadside over the middle and landed as well as the upper brackets of property holders, if the administration of the properties taken over was segregated from other regular administration and assimilated as much as possible to commercial practice under decentralized management, then the levy's direct socialization potential would be held down though the levy were large enough fully to wipe out the increase in war debt which occasioned the action. However, even in this case the prospects for future socialization and for the extension of social welfare projects in all directions would be strengthened by the achievement of the repropriated state which moreover could always be used as the point of departure for explicit socialization [25]). In other words, a capital levy speedily collected in appropriate forms of paper wealth would have significant implications for the social order even if its direct socialization potential were in every way minimized.

It was possibly because of these implications and of the drive for socialization which was then so widespread that the bourgeois opposition to a capital levy was so insistent [26]). This may explain why, where it was applied in Europe — in Greece, Italy and the successor states to the German and Austro-Hungarian empires — it was bastardized in form and limited in content. Nowhere were the levies imposed in a form and under conditions which would permit transfer of relatively large quantities of wealth and reliance was everywhere placed upon payment in money or government debt. Usually delayed payment arrangements on the installment plan were facilitated. In Germany, Austria and Hungary where the preconditions for an ef-

branches of production" into state hands or that it would only be carried through „wofern sie gleichzeitig als umfassende Sozialisierung der Wirtschaft in Angriff genommen wird." (*Ibid.*, 36).

[25]) For explicit development of this, see Pethwick-Lawrence, *A Levy on Capital*, 62 ff. It was on these grounds, which were so excellently developed in analysis, that E. Wolf concluded his examination of the German capital levy problem after 1945 by noting its „close connection" in the final analysis with the problem of the structure of the German economic order, „ja weitgehend mit ihm identisch ist." E. Wolf, „Geld- und Finanzprobleme der deutschen Nachkriegswirtschaft", Deutsches Institut für Wirtschaftsforschung, *Die Deutsche Wirtschaft Zwei Jahre Nach dem Zusammenbruch* (Berlin, 1947), 256-263, especially 261.

[26]) „Within a few months", wrote Otto Bauer in *The Austrian Revolution* (London, 1924), 131, „a whole literature about socialization sprang up."

fective levy were most nearly realized, the current inflation permitted satisfaction of levy obligations in the then rapidly depreciating currency. It appears that only in Czechoslovakia and Italy, where inflation was staved off, was the effect of the levy really felt. But in these two countries the rates of the levy were scaled low, hardly reaching one percent of taxable wealth with the total levy proceeds collected over a half-dozen years and barely reaching, as in Czechoslovakia, total budget revenues for a single year. By the device of drawn out payments the levy was transformed into a species of direct business and property taxation and into a component of the national tax system, though in both Italy and Czechoslovakia collection difficulties were so great that from a fourth to a fifth of the face tax liability was ultimately waived or defaulted [27]).

In Switzerland, France and England the support for a capital levy was not strong or broad enough to obtain legislative sanction. In Switzerland a popular referendum on the subject was pushed by the Socialist Party and met with ignominious failure. In France the struggle for a capital levy was unsuccessful. The line-up of support for the levy was broad as compared with Britain. The democratic liberal groups in France under Herriot supported the levy together with the Left parties. And by contrast with British conditions the levy was more urgently needed in France. The French fiscal problem was especially aggravated both because the heritage of war debt relative to national income was greater, because wartime profiteering was more flagrant, and because the basic class compromise on taxation which was arrived at with relative ease in Britain shortly after the war on the basis of high income taxes was achieved in France only by dint of an extended parliamentary and political struggle. The outcome of all this was continued inflation in France through to 1926-1928 [28]).

The high point of the struggle for the capital levy in France came when the project was officially adopted by that forerunner of the popular front, the Cartel des Gauches (Left bloc), which was formed during the election campaign of 1924. As in Britain the forces of the Left were strong enough in parliament to form a government but too weak to withstand a hostile upper chamber or the steady undermining

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[27]) For surveys of the levy experience on the Continent which back up this condensed summary, see Hicks-Rostas, *Taxation of War Wealth,* 21-238; Maupas, *Le Prélèvement,* 112-130. The Japanese capital levy in 1945/6 appears, on the basis of available accounts, to have reproduced the German-Austrian story of a good tax polluted by inflation.

[28]) On the background of the French fiscal and capital levy situation see R. M. Haig, *The Public Finances of Postwar France* (C. J. H. Hayes, ed., v. I, „Social and Economic Studies of Postwar France", New York, 1929), 6-115; Gaston Jèze, „The Economic and Financial Position of France", *loc. cit.,* 175-214; L. V. Birck, *The Scourge of Europe,* 276-283; Maupas, *Le Prélèvement,* 52 ff., 168 ff.

of the foreign exchange value of the franc. The financial interests had a relatively free hand at a time when central banks were independent centers of policy formation and when monetary transfers across frontiers were virtually unchecked [29]). The Left bloc was broken up and a new nationalist government was instituted which carried through the final adjustments which launched the franc on a stable course and „normalized" conditions in France [30]). But unlike the case in England the French financial situation was stabilized only after recognition of a fivefold inflation which considerably lightened the otherwise intolerable burden of the wartime debt. The French development would appear to support one of Keynes' more brilliant generalizations to the effect that devaluation and a capital levy are alternative methods for „moderating the claims of the rentier when the state's contractual liabilities... have reached an excessive proportion of national income." The French relied mainly on devaluation as „nature's remedy comes into silent operation", and they supplemented this by gradual restriction of state outlays and gradual strengthening of the tax system [31]).

II - THE LEVY ISSUE IN BRITAIN, 1918—1927

The British experience with the capital levy and debt problem ran a lengthy course. In the immediate aftermath of war the ruling liberal-conservative coalition flirted with the notion and temporized by the appointment of an investigative committee whose favorable report in 1920 was shelved even though it projected a levy on war-increased wealth alone. At the time, the levy received broad support from circles who later turned against it. As the reconversion and demobilization were carried through and the postwar inflation ended, the routine and outlook of normal life became better intrenched and the acute edge was taken off worker discontent. Nevertheless the issue simmered. The repeated parliamentary elections of 1922 to 1924 created conditions under which the issue could, along with other disputed questions of public policy, be given a widespread hearing [32]).

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[29]) See the instructive account of this in Haig, *Public Finances,* 99-113, 115 ff.

[30]) On the „stabilization" of the franc under Poincaré, see besides Haig R. G. Hawtrey's essay, „French Monetary Policy", in *The Art of Central Banking* (London, 1932), 1-28 and Keynes' articles which are partly excerpted in his *Essays in Persuasion,* 105-117.

[31]) Keynes, *Monetary Reform,* 70 ff. In the same chapter there was a short but brilliant analysis of the French case pointing out that in 1923 some 80 percent of the taxes were claimed by debt service and that through devaluation and inflation „they must come in due course to some compromise between increasing taxation and diminishing expenditure and reducing what they owe to their rentiers." *Ibid.,* 79.

[32]) „Discussion was very lively", note Hicks-Rostas, „with the political element coming increasingly into the foreground". *Taxation of War Wealth,* 252-257. See also Dalton, *The Capital Levy Explained,* 43 ff. Much of the discussion

Labour forged ahead in those campaigns to displace the Liberal party but it did not achieve enough strength to form an independent government. Hence the only issue out of these campaigns and the shortlived Labour cabinet that came into existence was the formation of a special committee of enquiry charged with a study of the levy problem. The committee with its liberal-conservative majority took some three years to collect evidence and to draft a report. When this was issued in 1927 the drift away from the wartime period had cut away every precondition for the successful conduct of a levy. The Britisch economy had again been snugly fitted into the capitalist world trading organism by payment and trading arrangements which permitted immense sums to be freely and instantly transferred out of the country. The entire monetary system pivoted upon a slender base of gold and liquid reserves which could be drained away in a short time.

The process of restoration of a fixed and freely convertible currency, completed in 1925, went hand in hand with the scrapping of the system of war economy controls which during the war itself and for a short period in its aftermath would have insulated the economy and equipped the government with sufficient regulatory authority to have carried through the dangerous and inherently disturbing project of a capital levy. But the government support of the securities market through mobilization of Bank of England resources, the control over foreign exchange and shipping, the regulation of banking, the control through rationing over key supplies — all of this power so essential as background for driving through a program of social transformation in a modern business community — had disappeared [33]).

The actions of dismantling the war economy and restoring the gold standard were accepted by the Labour as well as the Conservative Party. Keynes' iconoclastic and brilliant criticism of the entire performance found a weak response even among his Liberal friends and in the ranks of Labour where financial thinking was along traditional lines [34]). Yet with the monetary system again linked at a prewar

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revolved around a Labour Party policy statement, *Labour and the War Debt* (London, 1922). See Comstock, „Capital Levy to Surtax", *loc. cit.*, 9-12.

[33]) See the delineation of the processes of decontrol, which extended over some two years after the close of hostilities, in A. C. Pigou, *Aspects of British Economic History, 1918-1925* (London, 1947), 128-142.

[34]) See R. F. Harrod, *Life of Keynes,* 344 ff., 357 ff. On the tenacity of the conventional framework of capitalist economic life, see Polanyi's remarks in *The Great Transformation* (New York, 1944), 25 ff. Even the Soviets established a gold-backed currency. Keynes at least at the time did not see that the apparently obstinate and stupid return to the gold standard — which had resolved itself into a „rigid link" between „the City and Wall Street" (*Essays in Persuasion,* 233) and which brought with it such difficult times and had even to be negotiated with outside financial help (a Morgan loan) — had the very real rationale of paralyzing the political will power in office of the „internal enemy", socialist Labour.

parity via gold and dollars to a freely convertible world payments community, the spectre of unemployment and insufficient investment and demand rather than shifts in wealth distribution became the central problem of public policy. Against this framework of public interest the demand for a capital levy could only appear as a quixotic survival to be put to sleep with the least offense to socialist consciences.

If the feasibility of a capital levy had been undermined by the return to „normality", it was also apparent that in Britain where the connection between a highly progressive form of a capital levy and payment through transfer of paper wealth was prominent in levy thinking, the resistance to fundamental change in social order would be particularly deeprooted [35]). It was also apparent that the economic stake of the upper income groups in the debt had been very considerably mitigated by highly progressive forms of taxation. The effect of high bracket income and inheritance levies is to impute to any income source a relatively low marginal value corresponding to the highest rates of taxation paid. This imputation is founded on the real fact that deprival or loss of the income source would reduce income *before* taxation to a much greater extent than income *after* taxation. At the rate structures prevalent in the early '20's it estimated, with possibly some exaggeration, that expropriatory effects of a capital levy would reduce net incomes of the persons taxed by about one-third of their gross loss. A similar calculation for the '30's disclosed a ratio of close to 80 percent [36]).

From this clear-cut state of affairs some very misleading inferences were drawn. The presumption was indulged that since the net levy-payers' stake in the aggregate income proceeds of the debt was so comparatively low, their real stake in the debt was also low. But

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[35]) For the Labour Party support of collection „in kind", see *Colwyn Testimony,* 240, 460. The assumption of high progressivity was universal. The Labour Party proposal contained an exemption for the first five thousand pounds and ran from 5 percent to over 60 percent (over one million pounds). At thirty thousand pounds with a 30 percent bracket the effective rate was 19 percent. *Colwyn Report,* 254. As usual, the effect of steep progressivity with a slow start in the base brackets was to reduce effective yield to a startling extent. Cf. H. Groves, *Postwar Taxation and Economic Progress* (New York, 1946), Chapter VII, 168 ff. Yet the Colwyn Committee itself stated that „steep graduation" (which was wrongly asserted „to be required in order to raise a very large sum") was an „essential feature of the capital levy as understood in this country" and was taken for granted by the Committee. *Colwyn Report,* 252, 256. Hicks-Rostas state that this was „unanimously agreed". *Taxation of War Wealth,* 258. So also Edgeworth, with obvious regrets, noted the „inclined plane where to rush would be fatal". *A Levy on Capital,* 24. Yet steep progressivity increased the socialization potential of the levy, concentrated the opposition, and reduced potential yield.

[36]) As Hicks-Rostas put it, a capital levy would thus only seem to be „to a very considerable extent merely an anticipation of revenue" (*Taxation of War Wealth,* 259) collected by a progressive tax system.

individual debt holders can escape the high brackets by consuming their capital or by transferring it at lower tax rates on a gift basis. Moreover, this presumption was joined with a more dangerous one: namely, that the taxable income of the economy must fall by the amount of the reduction effected in debt service and that in consequence the „net yield" of the capital levy to the Treasury would be correspondingly less than its „gross yield" [37]). This presumption gained wide currency in the thinking of the '20's as the principal argument against the capital levy, since it seemed to show that the net yield of a levy was not sufficiently „attractive" [38]). Even such famous economists as Pigou and Keynes endorsed the thinking that was behind this presumption [39]). Yet this thinking was compounded of an obvious fallacy natural perhaps in a period when money income flows were assimilated in character to real output. The fallacy consisted in the assumption that taxable income would be destroyed rather than transferred by debt repayment or that, cast in general form, taxable income would vary with the extent of debt service. There is of course no *prima facie* reason why the purchasing power which had formerly serviced in the form of cash balances the interest transfer would not continue to be used with corresponding income effect [40]). Money income flows, moreover, are not rigidly tied to any one species of income payments and may be adjusted to virtually any desired level

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[37]) This was the famous „net yield" argument first elaborated and pointed up by Sir Josiah Stamp in articles later republished in his *Studies in Current Problems in Finance and Government* (London, 1924), 245-271. For its full elaboration see also *Colwyn Report,* 254 ff. (Stamp was a member of the Colwyn Committee); and Hicks-Rostas, *Taxation of War Wealth,* 258-260, 278-285.

[38]) *Ibid.,* 193.

[39]) In their testimony before the Colwyn Committee, both Keynes and Pigou stated they had underestimated the extent to which progressive taxation cut away at the „net yield" and Keynes very prominently emphasized both in his prepared statement before the Committee and in oral testimony that with a low „net yield" it would be „much better to have 1 s. extra on the income tax than to have the disturbance of a capital levy which would amount to 3 billion gross and would not be equivalent to more relief than 1 s. on the income tax". *Colwyn Testimony,* 535, Q. 7558. For a nearly identical statement in his 1927 article, see „The Colwyn Report", *loc. cit.,* 207. For Pigou, see *Colwyn Testimony,* 436 ff.; and his *A Study in Public Finance* (London, 1928), 291. Note the prominence with which these positions were set forth in the *Colwyn Report,* 255. Backed up by Keynes and Pigou and the prestige of the report itself — reinforced a decade or so later by the Hicks-Rostas reaffirmation — the net yield argument has passed into the folklore of the subject as a standing ground why capital levies simply are not „worth while". In this connection see Herz, *Substanzbesteuerung,* 80-81; S. P. Chambers, „The Capital Levy", *Lloyds Bank Review,* January, 1951, 1-9, with his conclusion about the „trifling yield of a capital levy"; Rudolf Stucken, „Die grosse Vermögensabgabe und das heutige Finanzproblem", *Finanz Archiv,* Bd II (1948), 253-256.

[40]) It was this point that the trade union delegation in testimony before the Colwyn Committee insisted upon making, to the obvious disgust of the Committee, and which the Colwyn Minority Report presented in diluted form. *Colwyn Testimony,* 360-362; *Colwyn Report,* 412 ff.

through fiscal and credit policy. A capital levy would thus have no effect on taxable income worthy of notice except as this would derive from a change in the pattern of income distribution and in the tax yield in consequence obtainable through progressive forms of taxation.

Regardless, however, of the ability of the economy after a capital levy to maintain its taxable income flow and regardless of the appreciable stake in the debt which the upper income groups retain despite highly progressive income taxes, it remains true that in some significant sense the interest proceeds maintained by taxation no longer carried with it that marked income displacement effect which was the characteristic product of the debt under pure capitalism. And this tendency to eliminate the income displacement effect was reinforced by the fact that nearly half of the British public debt was held by the monetary and banking system, and thus was worked into the economic system as a kind of service payment, or was held abroad or by lower income groups through savings banks and cooperative associations ond other means [40a]).

But if differential social interest in the public debt as a means of income displacement was lessened, an equally powerful motive for retention of the debt took on added importance: namely, the political role of the mortgaged state. After the Chartist upsurge had passed away the bourgeois order was strong in Great Britain. There was little call upon the compulsive pressures latent in the mortgaged state. But as the forces of labor, of social dissent and of critical attitudes grew around the turn of the century, the political tenability of the capitalist regime became undermined. The extension of the suffrage and toleration of trade unionism now bore the fruit of a mass party under socialist leadership contending for supremacy in the state. It was to neutralize this pressure that the economic control inherent in the mortgaged state became fully applicable. It was no matter that 66 percent or even 80 percent of upper class incomes derivable from the debt were marginally imputable to taxation and that maintenance of the debt merely brought about a complex flow of unnecessary payments together with their supporting system of wealth claims and asset values. For this flow of payments, if technically unnecessary, helped to use up the fiscal yield worked up by the tax system. If the tax proceeds were used to service the debt they could not be used to subsidize on a liberal scale lower class high school education or old age pensions. Merely cluttering up the tax system was a virtue under those conditions. And the circumambient wealth claims upon which these

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[40a]) *Colwyn Testimony*, 172 ff..

overlapping and offsetting payment flows were reared forced the state into dependence upon the capital market for continuous refinancing and market support and thus placed under conservative control an important pressure which helped to promote a "prudent" and "statesmanlike" policy even in Labour's ranks.

This aspect of the debt ran through much of the public discussion and was even the subject of some ill concealed calculation which came to a head chiefly in two forms. The conservatives were unashamed in their reference to the "beneficial" side of the debt in helping to withstand what was politely termed "extravagant" expenditure [40b]. They also pretended to fear that a levy once carried oud would encourage „repetition" [40c]). The supporters of the levy felt the need to assure the victims of the levy that its use would not be „repeated" and that large portions of the „benefits" of the levy would accrue to the upper income groups through reduction of their income taxes [41]). But it was virtually impossible to work up binding commitments without awkward proceedings that would cut across basic tenets of the British moral code. Moreover, there were abundant implications that any momentary agreement by Labour leaders in good faith to reduce

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[40b]) This was plainly set forth in the official Colwyn Committee Report which ventured the "doubt whether the economic situation in its widest aspect is such as to justify increased social expenditure at present" and which expressed the conviction that there was „considerable force" in the belief that „the effect of the debt charge as an incentive to economy of other public expenditure [was] a most valuable influence." *Colwyn Report,* 291.

Lord Balfour tried without avail to trap Pigou into assent with the suggestive question whether the debt does „induce governments to be a little more economical or that if it were removed would not the government go in for extravagant expenditure." *Colwyn Testimony,* 438.

[40c]) The objection itself is an old one, spelled out already in 1803. "The same authority which annuls and the same arguments which justify the compulsive absorption of any part of the capital or of the interest of the public debt may be extended to the whole. One step would probably form the precedent for another of greater importance until with the extinction of public faith even private virtue must be eliminated." John Sinclair, *The History of the Public Revenue of the British Empire* (3rd ed., London, 1804), III, 57. The argument was given expression in the Colwyn Report, a section of which was entitled „The Question of a Guarantee against Repetition". *Colwyn Report,* 259—260. The Committee members plagued the trade union and pro-Labour witnesses who testified with this offensively formulated query about „guarantees". But any measure op public policy in an open society is subject to a similar query; and obviously the margins may be overrun in any direction. The desire for „guarantees" indicates either a guilty conscience or marked social stress. Moreover, as Pigou pointed out, the question was highly demagogic since „fears" of a capital levy were alive at the time and would remain virile until some kind of action was taken, while if a levy were carried out "people would feel that things were settled at all events for a considerable time." Pigou, *Political Economy of War,* 204. Pigou underestimated only the ability of the British ruling class to "scare away" Labour's agressiveness and the assuaging influence of time which continually dulled the pressure for the levy.

[41]) See Dalton, *Capital Levy,* 38 ff.; *Colwyn Testimony,* 240 ff., 359 ff.; *Colwyn Report,* 259.

income taxes at the time of the levy would be difficult to sustain over a few decades in view of their own program and the views and doctrines which were rising from Labour's ranks. There are, noted Edgeworth, „various degrees of the danger ranging from the immediate resumption or even continuance of the present taxes to the imposition of similar taxation at a distant epoch under new circumstances" [42]). The Colwyn Committee in its report merely stated that even a moderate reduction of the income tax by 1 shilling in the pound would afford „a not very certain relief" the continuation of which „cannot be relied on with certainty" [43]). In the prevalent mood of the country the feeling was a sound one that the income tax was not likely to be reduced and that in the long run it might be increased. Under the circumstances the maintenance of a mortgage — even one which did not (marginally) pay — on the tax system seemed sound class politics, bearing in mind also the pressure for prudence which could be exerted through the stock and money market. Such considerations, which drew on the pressures flowing from the mortgaged state, were in part the ground for the extreme unwillingness of the British upper class to divest itself via a levy of its war debt holdings.

The feasibility of the capital levy had thus been undermined by the return to „normality". The loss in economic advantage in the debt as an upper class mechanism for income displacement had been offset by the greater class interest in maintenance of the mortgaged state. It was plain that a capital levy in scale would increase the threat of socialization and greatly increase the role of state economic regulation. These three developments as they were turned over in the minds of the members of the Colwyn Committee would alone suffice for a negative judgement. But there were other potent considerations pointing to that verdict. The debt looked frightening as it was being accumulated during the war. But living with it for half a dozen years indicated that it could be carried without causing too drastic curtailment of saving and of social outlay. Nor did the high postwar income taxation seem to hamper excessively the spirit of enterprise. The economy was not destroyed, the fiscal service was not undermined by tax evasion, new enterprise was developed to the extent that difficult trading conditions seemed to permit, and the labour movement was moving into harness. There were difficulties, but it was questionable to what extent they could not be attributed to the general deterioration of the British trading position or even to the high wage level [44]).

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42) See Edgeworth, *Capital Levy,* 18 ff., 29 ff.

43) *Colwyn Report,* 281.

44) „Wider causes than taxation", prudently and not unwisely concluded the Colwyn Committee after a masterful summary of pros and cons, „however, and particularly the dislocation of our old export markets must be held mainly

Moreover, under the existing attitude of the country it was highly dubious that a levy could be carried through even if no organized obstruction occurred. „Nothing delays valuation and ruins the standard of collection so much as the evasions and deliberate obstruction of disgruntled contributors" [45]). Yet it was not even certain that the obstruction would not be fostered by organized means [46]). The leaders of Labour, who always disliked action of revolutionary or startling implication, meanwhile were becoming increasingly mellowed. The militant temper carried over from the war and the habits of socialist agitation were mostly absorbed by the smashing defeat taken by Labour in the General Strike of 1926 [47]). The time accordingly was ripe to lay the issue aside. This was done with characteristic British thoroughness and good temper.

The conservative-liberal majority of the Colwyn Committee rejected the levy because, even if practicable, it would encounter too much resistance and because under existing conditions the budgetary relief which it offered „would be insufficient to justify an experiment so large, difficult and full of hazard." The minority members of the

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responsible for the lack of buoyancy in recent years." *Colwyn Report,* 169. See also Schumpeter's retrospective judgement in his *Business Cycles,* II, 722 ff., 755 ff., 810 ff.

[45]) Hicks-Rostas, *Taxation of War Wealth,* 267.

[46]) As the Report put it, in its diplomatic language, „it seems clear that a levy would be less readily accepted now than it would have been in the first year after the war" and that „it would be strongly resented... Exceptional circumstances are required to reconcile the owner of capital wealth to the levy idea"; yet the levy could not be carried through „unless it were received with a fair measure of equanimity and assent". *Colwyn Report,* 247, 296. In testimony before the Committee the Labour spokesmen were not too ready to renounce the project merely because taxpayer „goodwill" might be lacking, and Dalton was defiant to the end in asserting the right of a government with a parliamentary mandate and popular support to carry out a levy regardless of the lack of „taxpayer goodwill" by the use of enforcement measures. *Colwyn Testimony,* 574; 494 ff., Q. 6846-6856, 6951-6956. Dalton, however, was the exception. The Labour and cooperative spokesmen, the intellectual friends (Pigou, Pethwick-Lawrence and others) and the minority pro-Labour members of the Committee recognized that without „assent" the levy should not become a measure of public policy. Despite their belligerent tone, the conservative spokesmen in this instance were not — as Dalton implied — violating the ethos of „democracy". None more fervently than the socialist political philosopher Laski has demonstrated the pluralistic make-up of Western liberal society and the existence of values and institutions for which various groups would not accede to the common authority. H. Laski, *A Grammar of Politics* (London, 1925), 250, 260 ff., 271 ff.

[47]) G. D. H. Cole, *History of the Labour Party since 1914,* 196, ff. „The events of 1926 and the passage of the Trade Union Act in 1927 were followed by a sharp change in Trade Union policy", apparently rigtward. In terms of Labour party program this was symbolized by giving up the 1918 „uncompromisingly Socialist document" and replacing it with a new document which „differed considerably", being „more constructive and „a bid for power by a Party which expected in the normal course to attain it." This is the guileful way in which C. R. Attlee explains the shift, in *The Labour Party in Perspective* (London, 1937), 53 ff.

Committee rejected the levy, which was strongly recommended on its general merits, unless it „were accepted with general goodwill" [48]). The professional economists who had previously befriended the levy echoed their concurrence, Keynes enthusiastically and Pigou with obvious regrets [49]). The Labour party at its next meeting withdrew its demand for the levy, accepted the basic pattern of wealth claims carried over from the war and returned to sole reliance on conventional methods of taxation [50]).

[48]) *Colwyn Report,* 296, 412.

[49]) „This report," wrote Keynes in a memorial article which is not among his most inspiring, „is in the main a vindication of the British system of taxation as it now is." With this judgment, Keynes stated, „most economists" will „concur". „Bright ideas within the realm of taxation are seldom worth while." Keynes, „The Colwyn Report", 198-212, particularly 198, 207. See also the article on the same subject by D. H. Robertson hailing the indication of social easement that could be yielded without strain by progressive taxation. „The Colwyn Committee and Income Tax", *ibid.,* 566-581. Pigou had always endorsed the levy with the stipulation that „the decision to adopt it were accepted loyally and did not meet with organized obstruction." *Political Economy of War,* 1921, 232. While the degree of support for the principle of the levy was somewhat less by 1927-28 since the extent of net budgetary relief previously anticipated was cut down, yet the balance of his argument was favorable to the levy and it was given adverse recommendation only because it could meet „strong and organized opposition" — Pigou did not mince his words — reinforced by fear of its repeated use and also because the high point of the postwar price boom had been missed. Pigou, *A Study in Public Finance* (London, 1928), 286-306. In 1940 Keynes saw new light. The debt no longer became „for the nation as a whole... merely a bookkeeping transaction." *Colwyn Testimony,* 537. Keynes felt sure that at the end of the war the national debt would reach „an unmanageable figure." Keynes, *How to Pay for the War,* 48. The recommendation for a levy was supported by its feasibility „at the end of the war" but before „the postwar slump." *Idem.* And the project was recommended for the „sound reasons... namely that the war should be an occasion for diminishing rather than increasing the existing inequalities of wealth." *Ibid.,* 49. The latter position undercut the somewhat specious grounds on which the Keynes of the middle '20's opposed the levy: namely, that the levy must cast a given tax pattern in a more feasible form but must not be the vehicle for changing incidence or effecting redistribution of income on the Pickwickian argument that for such purposes a levy „ought to be the last rather than the first step in any transition from individualistic capitalism to a new order of society." *Colwyn Testimony,* 534. Even as a design for socialist strategy this is ill fitted, for what from that viewpoint could be better than to achieve income redistribution by an action which mobilized traditional property taboos and which at the same time removed the shackles from the mortgaged state. Perhaps the answer is that with his keen political instinct Keynes here became the partisan within the bounds of the possible; and that to this extent, at least, Schumpeter's judgment is acceptable that „Keynes's advice was in the first instance always English advice, born of English problems even where addressed to other nations." J. A. Schumpeter, *Ten Great Economists from Marx to Keynes* (New York, 1951), 274.

[50]) See the discussion in Cole, *History of the Labour Party since 1914,* 206 ff.; A. Comstock, „From Capital Levy to Surtax", *loc. cit.,* 15 ff. In a work written at the time Cole stated that though „thoroughly justifiable" on its merits „it is now generally recognized that for the present at least the time for it has gone past." The correct socialist way of dealing with the debt „is not that of buying it up or repaying it but that of wiping it out as part of a general plan of expropriation of inherited wealth." But to carry out this radical sounding objective,

III - THE CAPITAL LEVY IN THE FUTURE

The capital levy as a fiscal device and political storm center never recovered from the defeat it suffered during the Twenties by equivocal or temporizing embodiment on the Continent and rejection in France and Britain. Preoccupation with the problems and analysis of depression with its need for deficit spending generated an approach to the debt which, however healthy in its reaction against traditional thought, developed an almost compulsive preference for debt. The extreme Left in the labor movement gravitated to the communist approach which was concerned with overthrow of, infiltration into or embarrassment — but not with reformation — of existing society. The modern social democratic left grew away from the egalitarian outlook of an earlier period and became thoroughly permeated with the new Keynesian outlook which accepted progressive taxation and the pattern of the indebted state.

The second World War brought little to alter this drift. In leading Western countries the typically capitalist system of war finance had to varying degrees been modified in method and in principle. Under this newer system, which naturally had its point of departure in previous developments, profiteering was rigorously curbed both by overlapping controls and by severe taxation while the task of economic guidance and leadership passed over from private entrepreneurship increasingly into the hands of the military — merged into and serviced by the politically constituted — agencies of the war economy [51]). The heritage of deadweight debt was much increased by the war. But the sting of the debt in its income displacing effects was almost completely removed by the bracket tax rates on upper class income which were substantially higher than the levels of the Twenties and Thirties. Particularly in America the debt became a form of widespread investment of savings by lower income groups directly through bond holdings and indirectly through savings banks, insurance companies and social insurance reserves. To a much greater degree than before the war the debt was worked into the monetary system of the country and was both monetized in its main forms and used as a basis for the national monetary supply. Finally, the sharp edge of the controls over the morgaged state was to a considerable extent blunted by a development which was compounded of many causes and has been carried to different stages in various countries.

Cole recommended the time worn and futile device of heightened death duties. G. D. H. Cole, *The Next Ten Years in British Social and Economic Policy* (London, 1929), 372-375. None of the talented socialist works written during the '30's revived the issue. Interest was apparently concentrated on promoting deficit finance to overcome depression. The Keynesian outlook had become accepted and with it repugnance to the deadweight debt faded; and use of progressive

Among the causes that have weakened the restraints emanating from the mortgaged state may be cited the development of new and more powerful forms of taxation, the development of new techniques of debt marketing and financing which have weakened the reliance of the Treasury on bankers and dealers by enabling the Treasury directly to market and to control the subsequent handling of a considerable volume of its securities [52]). More important was the development which to varying degrees has brought about the fusion of the central bank with the Treasury or the absorption of the two bodies in more inclusive forms of policy making [53]). Finally, linked with this

income taxation, given ruling class sanction, was accepted as adequate for the purposes of socialist reconstruction. This is true of the works of Jay, Dalton, Durbin and others. By the time Robert Brady wrote his *Crisis in Britain* (Berkeley, 1950), the intellectual traces of Labour Party preoccupation with the capital levy had so completely disappeared from Labour Party literature and thinking that Brady overlooked completely this background, misread the Fabian position of 1916—1918 and characterized the Labour Party position on financial questons as dropping „ever more snugly into the academically secure cachements of the Keynesian monetary control theory." *Ibid.*, 45-46. Dalton continued to befriend the capital levy, but he espoused a somewhat antiquated conceptual scheme. Dalton, *Principles of Public Finance* (3rd ed., London, 1936), 251-273. Unrepentant to the end, Dalton stated on the „goodwill" issue that „blackmail is a bad basis for government." *Ibid.*, 271. But to provoke blackmail is poorer statesmanship; and to undertake an action with revolutionary implications without the intent to carry through is childishness.

[51]) See J. K. Galbraith, „The Disequilibrium System", *The American Economic Review,* XXXVII (1947), 287-302. It was chiefly this issue, and the degree of genuine shifting in socio-economic system implied by it, which was central to the very interesting discussion among Soviet economists of Varga's book, *Changes in the Economy of Capitalism Resulting from the Second World War.* See *Soviet Views on the Post-War World Economy* (Washington, 1948).

[52]) See W. Thomas, „Lessons of War Finance", *American Economic Review,* XLI (1951), 624; H. C. Murphy, *The National Debt in War and Transition* (New York, 1950), 36-48, 129-144. In the field of taxation reference is made to the development of „collection at the source" techniques and the use of the corporate income tax to milk the national income plus the emergence of the central government as a central financing agency for systems of social insurance financed by means of employment taxes.

[53]) This development, which is one broadly speaking of coalescence with shadings of primacy and leadership rather than outright „dominance" by any of the struggling groups, is still in America a subject of active struggle and has nowhere — even in Britain — come to a settled relationship. It is difficult to trace the development clearly since many of its important processes are not reflected in official law or regulation but take the form of „inside" negotiations or the handling of so-called „administrative questions" by, for example, the Bank of England or the New York Federal Reserve Bank. And in America the powerful „old guard" in finance has put up a strong fight to retain its former positions and prerogatives which hinge in part upon the „unpegging" of the market for government securities. But the entire range of struggle and solution is very far from any conceivable outcome that could have persisted in the pure capitalist society in America after the Civil War or even in the America of the Twenties. See on this entire question M. A. Kriz, „Central Banks and the State Today", *American Economic Review,* XXXVIII (1948), 565-580; the illuminating work by G. L. Bach, *Federal Reserve Policy-Making* (New York, 1950), vii ff., 16 f., 28 f., 189 ff., 208-218; Robert Brady, *Crisis in Britain,* Chapter II.

relative fusion is the crucial development virtually unknown on any scale during the 19th century of utilization of central banking credit facilities on a large scale to support at pegged prices the market for government securities.

The tendency toward effacement of the debt problem as an issue of urgent public policy was accentuated by a process of transformation of attitudes which has undermined the point of view from which the interest in a capital levy was so largely inspired. This point of view laid primacy on the long run aspects of public policy which fully reckoned with the cumulative drawbacks of a large debt over an extended forward period. These accumulated drawbacks would obviously overshadow the transitory costs of debt expungement [54]). Similarly, fiscal policy had worked up into a veritable dogma the well-founded policy of repaying debt in order to prepare the state for future emergencies [55]). This dogma had crystallized during the 18th century with its incessant, intermittent, but limited wars which became the natural mode for the conduct of international relations during this phase of development of the then rapidly expanding

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[54]) This was the traditional way of considering the evils of a large debt. When Mill in a classic passage wrote that it was worth a „considerable effort" to „get rid" of the debt and the „expense, vexatious disturbance of the channels of industry and other mischiefs" arising out of it and its servicing, the debt was clearly viewed over an extended duration. J. S. Mill, *Principles of Political Economy* (Ashley ed., London, 1915), 876. Hence the postulate of the „prudent" policy of debt repayment; and hence the only question that remained was whether this repayment should be „at once by a general contribution or gradually." *Idem.*

[55]) This was even in its conception cast in cyclical form. „If the periods of war and peace be so related that the debt contracted in the former be discharged in the latter, the amount of the debt vibrates and this system may go on for an unlimited length of time." R. Hamilton, *An Enquiry... of the National Debt* (Edinburgh, 1814), 57. That under the conditions of the period this was justified is indicated by the fact that on literal count the years of war during the 18th century were greater in number than the years of peace, as another historian of the British national debt ascertained. The British experience was characteristic of European life for centuries, since, according to P. Sorokin's data, „war occurs on an average in every two or three years" in the history of most states and out of every hundred years the number of years marked by war in leading states ranged from a low of 28 to a high of 58. Sorokin, *Society, Culture and Personality* (New York, 1948), 497 ff. The record of the 19th century, though it had no general world wide struggles and though the magnitude of war as indicated by the size of relative casualties was a third of that of the preceding century, was still marked by constant war and threat of war. *Idem;* Sorokin, *Social and Cultural Dynamics* (New York, 1937), III, Chapters IX—XI. On the traditional nature of the policy as it evolved during the 19th century, see Adams, *Public Debts,* 134 ff. It was this purely traditional outlook. which already toward the end of the 19th century was weakening — see, for example, the balanced emphasis on debt repayment in Leroy-Beaulieu, *Traité de la Science Finances* (6th ed., 1906), II Chapter IX, particularly 448 ff., 506 f. — which Pigou rather unreflectingly in 1921 expressed by his premise that „it has always been the policy of prudent governments in time of peace steadily to reduce debt." Pigou, *Political Economy of War,* 1921, 190.

Western state system [56]). It was precisely when the faith in the capitalist order had crystallized to its fullest extent during the early years of the 19th century that acceptance of an international order of limited wars and constant readjustment of the balance of power became so prevalent [57]). This regime both in internal social order and international relations was reproduced in the ideology of the period as a natural mode of „civilized life" which would automatically tend to reproduce itself whenever civilized men overthrew „tyranny" and „superstition" and followed the promptings of instinct or „human nature" [58]).

It is notorious that even during the 19th century and increasingly during the twentieth this kind of faith in social order weakened. Though traditional modes of thought lingered on in sometimes surprising contexts, it had become apparent that the international order of the 18th and 19th century, as well as the nature and results of war, had become visibly and significantly transformed [59]). So likewise the sense of stability with regard to internal social order almost completely has been lost. The older convention of the relative fixity of things and hence the importance of the long term view has increasingly become undermined and with it the devotion to long run goals of public policy. Primacy now is given the sense of urgency attending the solution of short run problems. The contemporary culture gene-

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[56]) This situation was theoretically cast up and generalized as an inherent property of „international politics" in the work of Hans J. Morgenthau, *Politics among Nations* (New York, 1949).

[57]) This was excellently worked out in Polanyi, *The Great Transformation* (New York, 1944), Chapters I and II, 259-265.

[58]) For political economy, wrote Marx, „there are only two kinds of institutions, those of art and those of nature ... In saying that existing conditions are natural the economists give it to be understood that these are the relations in which wealth is created and the productive forces are developed ..., are themselves natural laws independent of the influence of time ..., eternal laws which must always govern society." Marx, *Poverty of Philosophy* (Kerr ed., 1920), 131 ff. This tendency to dichotomize was so deeply entrenched in liberal thought that even the learned sociologist Hobhouse, halfway in the socialist camp, outlines only two types of state structure: an „authoritarian" which embraces the primitive communal order up through feudal society; and the „modern state" which was the product of liberal infiltration. L. Hobhouse, *Liberalism* (New York, 1911), Chapter I.

[59]) Thus it was literally fantastic for the Webbs and their Fabian associates to mar an otherwise excellent work with their support of a capital levy on grounds of the danger of another war during a „decade or two" which we cannot have „sprung upon us whilst saddled with a National Debt of 4000 millions." *How to Pay for the War,* 261. During the Colwyn Committee hearings Keynes greatly shocked prevalent opinion by calmly dismissing its relevance to debt policy and in fact urging that serious acceptance of such possibilities would lead to greater spending on war preparation but not to debt repayment. *Colwyn Testimony,* 536 f.; and see for contrast Pigou's testimony, *ibid.,* 438. See also Keynes' article, „Colwyn Report", *loc. cit.,* 210 f. Keynes' view was embodied in the report of the Committee. *Colwyn Report,* 331 f.

rally is keyed around the concept of „survival" in full awareness that its conditions of life are changing too rapidly and are subject to too many uncertainties to permit long range considerations significantly to affect practical judgment. In the realm of economic theory this shift in point of view was spearheaded by Keynes who virtually in every direction thrust out at what he called the „decaying conventions of the past" with their emphasis on the long run in which „we are all dead" [60]). And this shift in point of view in the range of things fiscal and financial was grounded on the very important development which had substituted various forms of paper and book money for the standard metallic money and had finally virtually driven the latter out of use in the domestic monetary system and confined it to that of a foreign trading reserve.

This development — as Keynes put it in a memorable passage — that „the touch of the metal has been taken away from men's greedy palms", that „the little household gods who dwelt in purses and stockings and tin boxes have been swallowed by a single golden image in each country which lives underground and is not seen" — was destined to have the most profound consequences for the economic and social order [61]). For it was found through experience after the war and the travail of the Great Depression that the monetary unit and a specified weight of gold are not a natural fact or sacred fact but a conventional relationship which can be adjusted according to need [62]). The initial sense of horror with which this was regarded has subsided and with it much of the basis for the fear of a large and growing debt which oppressed an earlier generation who could think only in terms of a fixed monetary unit [63]). Now it is simply

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[60]) Keynes, *Monetary Reform,* 88; *Colwyn Testimony,* 285: „It is unsound to base the policy of the future on the decaying conventions of the past." It was this unsettled mood which was expressed in the style and major drift of most of Keynes' work. He also believed that the economist „is the special custodian for society of the long view in economic matters and that even in troubled periods that view is entitled not to undisputed dominance but to a full hearing." J. Viner, „Short and Long View in Economic Policy", *American Economic Review,* XXX (1940), 9. But because the future was unsettled and the ideas of the past insecure, he advocated shortened sights. See *Essays in Persuasion,* 233 ff., 329-337, 342 f., 353.

[61]) Keynes, *Treatise on Money,* II, Chapter XXXV, section 1, „Auri Sacra Fames."

[62]) Tracing this and its implications through was one of the great themes for economic analysis and policy formation in the period. See Polanyi, *The Great Transformation,* Chapter II; League of Nations, *International Currency Experience* (New York, 1944); the writings of Alvin Hansen, J. H. Williams and others.

[63]) In his classic work, *The Theory of Business Enterprise* (New York, 1904), Veblen pointed out that the entire pecuniary order of business enterprise, „with all its freedom and inviolability of contract" turns on the „assumption" of the invariance of the „unit of money value" and „notoriously, stability of the money unit." *Ibid.,* 82-83.

taken for granted — and not only among persons of advanced views — that under pressure of national need the burden of past or future debt can and will be lightened by inflation and the necessary degree of devaluation as expressed in the fixing of „exchange rates" or the adjusting of the position of the „dollar".

These changed attitudes and conditions account for the fact that the issue of the capital levy, which was so popular after World War I, played virtually no role in connection with public debt after World War II. So far as the debt itself became a problem it was manifested in monetary form and was met by programs of monetary reform directly which only to varying degrees were supplemented by extraordinary property taxation on a scale which warrants the designation of „capital levies". Though monetary reform itself has frequently been considered a special application of the capital levy principle, it essentially embodies another kind of policy instrument with distinct issues and problems of its own. Moreover, the capital levy experience after World War II was influenced to an extraordinary degree by the desire to equalize the unequal incidence of wartime losses in property and income or to collectivise property holdings on a large scale. This latter motive appeared to govern the capital levy legislation which ran its course in most eastern countries under Soviet influence. Here the fiscal details and mechanisms are overshadowed by the setting of social transformation and the exercise of power by quasi-revolutionary regimes. The capital levy experience in Germany essentially revolved around the effort to segregate a sizeable stream of taxation on current income in a form and subject to an administration which would earmark proceeds for purposes of equalization of war losses. Elsewhere capital levies on a small scale and not involving massive property transfer were worked into programs for monetary reform which hinged to varying degrees on „blocking" techniques [64]).

Validity — and with it at least a potential public policy interest —

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[64]) No attempt is made in this paper to review this experience in detail and a monographic review of it is now warranted. In the case of Germany, see my dissertation, *Quest for East-West Settlement in Germany* (Harvard University, un published, Cambridge, Mass., 1952), 165-210; W. Heller, „Tax and Monetary Reform in Occupied Germany", *National Tax Journal* II (1949) 227-9; W. Conrad, „Ein Jahr Soforthilfegesetz", *Finanzarchiv* XII (1951) 521-31. For reform experience elsewhere in Europe, see F. H. Klopstock, „Monetary Reform in Liberated Europe", *American Economic Review,* XXXVI (1946) 584 ff.; and a series of articles which have appeared in *Openbare Financien,* 1946 on the issue of a capital levy by Mesrs. L. J. Zimmerman, M. J. H. Smeets and E. Tekenbroek; see also Smeets, „Des Rapports entre la Fiscalité et l'Assainissement monétaire aux Pays-Bas", *Revue de Science et Législation Financières,* Jan.-Mar. 1948; see also articles on postwar financial legislation in *Cahiers de Droit fiscal International.* For Japanese experience, see H. Shavell, „Postwar Taxation in Japan", *Journal of Political Economy* LVI (1948) 130-4.

in the capital levy would require that it be treated primarily as a measure of rationalization. The financial system conceived of as a world of interrelated claims for payments and rights to property has grown up haphazardly with overlapping payment flows and claims which cut across each other. In the process there may be generated an undue amount of strain and friction and conditions which foster the rise of uneconomic management or investment practises. The continuous turning over of an immense debt by reflotation in the market, the subsidization of the financial organization by means of interest payments, the warping of investment practises brought about by the availability of a large supply of gilt-edged investments, the overlapping of interest payments with tax returns at high brackets, the lack of clear-cut responsibility for fiscal management, the need to provide the economy with a large amount of liquidity — these are among the issues which would be involved in any comprehensive effort at rationalization of the fiscal and financial system grown up around a large public debt.

No effort can be made here to work out the politics and economics of this still evolving area of Western public life. Certinly the desirable amount of public debt that would survive any rationalization would be much larger than even a few decades ago. More of the economy is now dependent upon liquidity generated by debt and worked into the monetary system in ways which cannot easily be reversed. But it is equally true that an excess supply of liquidity can be built up into the economy and render it dangerously volatile and liable to aberrations or can generate outright inflation [65]). The interest cost registered in official budgets for a public debt may be affected by the all too easy temptation to issue and seek to maintain a large structure of indebtedness on terms considerably below what investors, both private and organizational, will voluntarily support over an extended period [66]). The official and budgetarily recorded interest

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[65]) Thus if Keynes and Hansen were right in stressing the need for debt expansion to float the American economy to the full use of a wealthproducing capacity which Keynes in 1940 declared was „so far beyond our powers of measurement that it is useless to hazard a figure for it", so also was Henry Simons right in his foreboding of a „not easily manageable money" alongside a „mass of private debt and private near-moneys whose aberrations fiscal policy must always work against." See Keynes, „The United States and the Keynes Plan", *New Republic,* 29 July 1940, 158; and for the valedictory, see Hansen, *Monetary Theory and Fiscal Policy* (New York, 1949), 34 ff., 197 ff.; Henry C. Simons, *Economic Policy for a Free Society* (Chicago, 1948), 199. As Seymour Harris noted, the very advantage of debt monetization breeds the problem of excess debt in the form of inflation. Harris, *National Debt,* 120 ff.

[66]) This tendency, which has in a sense artificially cheapened the cost of the American post-1945 debt, is relevant to the distinction discussed in detail by Leroy-Beaulieu between the commercial-type loan issued to „appel à l'intérêt des capitalistes et leur offre des rentes à un prix qui est en harmonie avec les con-

cost must be compounded with the disabilities and inhibitions entailed by it [67]).

Possibly the most important general rule that could be enunciated regarding any such rationalization of the financial system is that it must be regarded as a total process without segregated consideration of any of its component elements. From this point of view the over-all feasibility of rationalization involving any considerable scaling down of public debt would probably turn around the comparison of interest cost for an economically surplus amount of debt related, not to national income, but to tax potential and expenditure needs. Whether a given interest burden will be deemed excessive or not will depend upon the strength of these two forces which pull in contrary directions. On the one hand the trend of economic development over the past century has tended to enlarge the tax potential of the economy. By tax potential is meant the ability to raise varied tax yields out of a national income with a given scale of cost. This cost will include a reckoning of the check to enterprise, the hampering of saving, costs of collection and administrative waste, distortion of production and social stress. With a given amount of cost and given national income, a society which in 1850 could raise only 4 percent of the national income in taxation can today raise 15 percent. As national income increases, larger tax yields can be raised with smaller additional increments of cost than were experienced a few decades ago. Whereas in a time of national crisis a capitalist society could with difficulty raise 10 percent of the national income in taxation, the present day society can run its extraction ratio up to 50 percent or better. The larger the tax potential of the society, which has in the Western world for a variety of reasons continually risen during the past century, the smaller the burden — real and felt — of a given magnitude of interest payments [68]).

This favorable development has often been alluded to without calling attention to the counteracting force which has frequently swung the balance around the other way: namely, the growth in expenditure appetites and needs. The means by which tax potentials have widened have also stimulated the development of spending appetites. An organized social movement has in various forms in all Western

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ditions générales du marche des capitaux" and the „patriotic" loan which „s'addresse au sentiment, à l'esprit de devoir des citoyens." *Traité,* II, 317 ff. A brief historical review sufficied to show that commercial calculation and not sentiment shoul be the keynote of fiscal policy.

67) See the brilliant performance of D. B. Woodward, „Public Debt and Institutions", *American Economic Review Supplement,* XXXVII (1947), 166-175; and Simons, *Economic Policy,* 220-239.

68) As the reader sees, tax potential as discussed above differs considerably from the „tax potential" analyzed in Harris, *National Debt,* Chapter XVII.

countries done much to pave the way for varying modes of social expenditure. Above all, military outlays for intra-civilizational combat have developed apparently insatiable spending needs. Finally, in a postwar period expenditure needs are likely to mount for several reasons. There will be damaged facilities to rebuild and disabled persons to support. There will be justifiable pressure for delayed compensation to the ex-soldiers. Usually there will be large subsidies for price control and high-cost marginal production. In precisely such a period when tax potential is likely to be low and expenditure needs are pitched high, the burden of interest payments on what one may term excess debt holdings may be eyed critically. It is at such a juncture, too, that some form of capital levy would be found helpful in dealing with various types of inequities inevitably arising out of war or national emergency.

It is however dubious whether this post-capitalist social order is so constituted that the issue of debt and debt-extinction or rationalization will have much appeal or will rank very high in the order of importance of public policy issues. It is even dubious whether the Machiavellians of Right or Left will see the enormous socialization potential latent in any far-reaching levy aimed at debt rationalization or that they will feel the attractiveness of being able to mobilize on their side all those traditional fears regarding debt which, though no longer virulent or controlling, still can be exploited, like all the „decaying conventions" of the past, to good political effect.

LE PRELEVEMENT SUR LE CAPITAL APRES LA PREMIERE GUERRE MONDIALE

RÉSUMÉ

Le prélèvement sur le capital était devenu un élément très contesté dans la politique publique en Europe dans la lutte pour le redressement après 1918. En Angleterre ceci a été encouragé par les Webbs et sur le continent par les socialistes modérés et les économistes libéraux. Le mouvement pour le prélèvement sur le capital a gagné de force parce que les fardeaux des dettes d'après-guerre étaient lourds et parce que les conditions pour un prélèvement couronné de succès avait muri dans une large mesure dans les pays les plus avancés: nous pensons à la présence de signes de luxe sous une forme qui permettait d'en prendre sans nuire à la gérance des affaires, ni de diminuer le courant de revenus existants. Mais pour cette raison l'opposition bourgeoise contre le prélèvement était forte. Là où il avait reçu force de loi, on l'avait rendu inoffensif par l'inflation ou par la prévision d'acomptes. En France il a été abattu par la tolération de l'inflation et la dévaluation. En Angleterre il a été abattu par une combinaison de faits qui sont traîtés en détail dans le présent article. Le prélèvement n'était pas convenable dans les conditions créées par une monnaie convertible et la suppression des contrôles. La classe britannique au pouvoir était prête à retenir un impôt sur le revenu relativement élevé, plutôt que d'abandonner leur intérêt dans la dette publique. Les travaillistes étaient prêts à accepter ce compromis ou devenaient dociles après 1926. Ceci explique le „Colwyn Report" de 1927. Dans la conclusion de l'article, les perspectives d'un prélèvement sur le capital dans les conditions actuelles sont examinées en regard de la dette publique.

THE BUDGET CYCLE IN PUBLIC FINANCE IN THE UNITED STATES OF AMERICA

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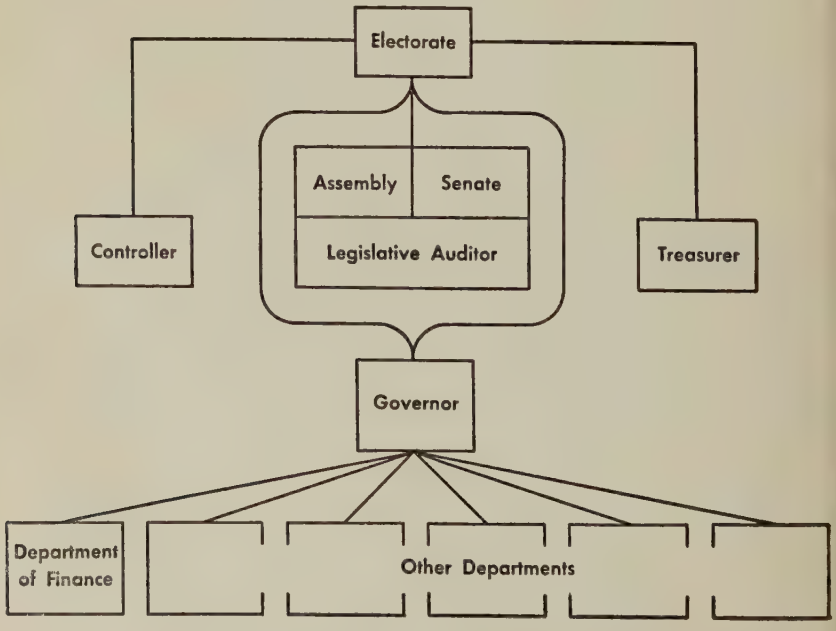
THE FISCAL SYSTEM OF THE STATE OF CALIFORNIA

§ 69 - *Introduction.*

Since the financial system followed in California bears, in its main outlines, a close resemblance to the systems described in the foregoing

State of California

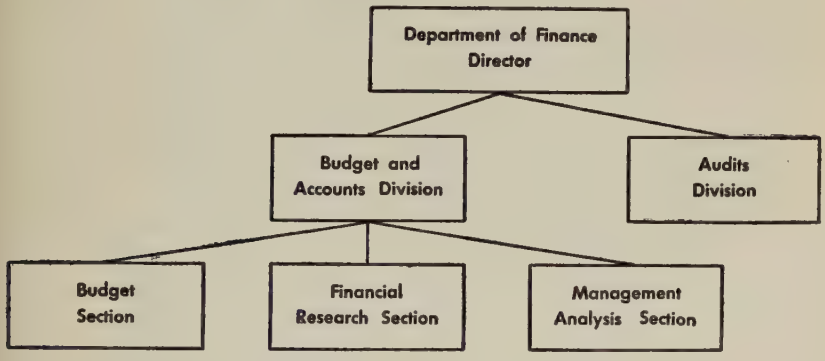


chapters, the following account of it will be concerned with the ways in which it differs from these other systems.

The diagram on page 313 shows the general organization of the apparatus of government in California; not only are the Assembly and the Senate elected by the people, but the Controller and the Treasurer as well, and also a few other functionaries whom we can omit from our account.

§ 70 - *The preparation of the budget (Phase 1 of the budget cycle).*

The annual budget is prepared under the direction of the Department of Finance, in particular under that of the Budget and Accounts Division of this department. (See diagram below, in which only those divisions are mentioned which are dealt with in our account.)



The Budget Section (see diagram). In July a circular letter is sent out to the departments and agencies, requiring them to submit estimates of expenditure for the fiscal year commencing on July 1st of the following year. When these estimates have been received they are subjected to examination in the Budget Section, during which examination the departments are consulted in order to clear up any small points of disagreement or dispute in advance.

A summary is made of the analyses and this serves as a guide during the budget hearings. In the hearings — which are open to the public — only the most important matters are brought up for discussion.

The head of the Budgets and Accounts Division acts as the Chairman of the Hearings Committee. The Chairman is assisted by analysts of the Budget Section, while the departments concerned are represented by their own delegates, whose task it is to support the estimates submitted. The *Legislative Auditor* (see § 72) is invited to be present at the hearings.

After the termination of the hearings, the head of the Division, assisted by the head of the Budget Section, arrives at certain temporary conclusions, which conclusions are submitted to the Director of Finance for his decision. Next a proof is made of the Budget. The departments receive a copy of this and they can, if necessary, call on the Governor for revision.

The budget is now submitted by the Department of Finance to the Governor and after he has come to a final decision, it is printed and submitted in due course to the Legislature.

The Financial Research Section. The main task of this section is to draw up estimates of the revenue from taxation. The estimate of income from other sources is left to the relevant departments.

In order to fulfill its task, the Section studies the relationship between certain economic phenomena and taxation revenues; it seeks correlations between these in order to arrive, by applying them, at reliable estimates. A separate procedure is adopted in order to arrive at estimates of the proceeds from sales tax and income tax.

In October each year the *National Association of Tax Administrators* holds a two-day conference in Chicago attended by representatives from about 20 different states, the United States Chamber of Commerce, the Federal Reserve Banks, the Council of Economic Advisers (see § 10) and from a few large corporations. At this conference the U.S. economic prospects for the coming 12 to 15 months are discussed.

On the basis of these discussions the Financial Research Section makes temporary estimates of taxation revenues, which are described in a Review. This Review is submitted to a one-day conference held in San Francisco. The conference is attended by representatives from the Universities of California and Stanford, the Chamber of Commerce, the Federal Reserve Bank of San Francisco and from a few other banks, from the oil industry and from the Taxpayers' Association.

The delegates are asked to supply estimates (with figures) covering a number of economic phenomena, and on the basis of these estimates the section assesses the wage payments of the State of California (for 1951, for example, the figure was $ 21,300 million). This figure is then adjusted for federal and state personal income tax, savings and fluctuations in short-term loans, until a figure representing the *spendable resources* of the population of California is arrived at. This figure serves as a basis for estimating the proceeds from sales tax and income tax.

The Management Analysis Section is the counterpart of the Division of Administrative Management described in § 19. As the reader will have understood, it is a bureau with responsibility for making administrative policy, organizational, and procedural studies resulting in reports with recommendations for improvement.

These studies cover the general field of management. In addition, accounting [8]) systems studies are made by one section of this analyst group, which has overall responsibility for developing and maintaining a state-wide uniform system of accounting.

§ 71 - *Form of the Budget.*

The expenditure budget is a *double* budget, that is to say, the ordinary expenses (current expenses) and the extraordinary expenses (capital outlay) are given separately. The ordinary expenses are then subdivided into those involved in maintaining and running the apparatus of government itself (State Operations Budget) and those which take the form of subsidies granted to lower jurisdictions (Local Assistance Budget).

For the fiscal year 1951/52 the proposed sums involved were:

		in millions of dollars
I *State Operations Budget*		
Current expenses . . .	298	
Debt service	7	
Reserve for contingencies	3	308
II *Capital Outlay Budget*		140
III *Local Assistance Budget*		569
	Total budget	$ 1017 million

The Capital Outlay and the Local Assistance Budget are designed so that they have the character of a *performance* budget. The entire budget is, by the way, very detailed. It runs into 1,200 pages in print.

Another distinction made in the budget is between fixed charges and controllable expenditures. The first group comprises expenditures fixed by the Constitution or by statutes. They are included in the budget without the Legislature needing to pronounce upon their validity. The controllable expenditures comprise those for which appropriations have to be granted each year by the Legislature. Thus the budget figures can be shown as follows:

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[8]) Budgets and *Accounts* Division.

BUDGET 1951-52 (*millions of dollars*)

Section of the Budget	Fixed Charges	Controllable Expenditures	Totals
State Operations Budget	56	252	308
Capital Outlay Budget	96	44	140
Local Assistance Budget	523	46	569
	675	342	1017

As will have been seen, the fixed charges make up $^2/_3$ of the total budget and in the case of the Local Assistance Budget they can even total more than 90 %. (Examples of fixed charges are: Salaries of State Legislators, bond interest and redemption, subventions to public schools, maintenance and extension of highways, aid to the needy, aged and blind, and contributions to State Employees' Retirement Fund etc.)

A further breakdown is made according to the funds from which the money is provided, as appears from the following statement:

BUDGET 1951-52 (*millions of dollars*)

Section of the Budget	General Fund	Reserve Funds	Special Funds	Totals
State Operations Budget	222	1	85	308
Capital Outlay Budget	28	1	111	140
Local Assistance Budget	424	4	141	569
	674	6	337	1017

§ 72 - *The adoption of the Budget (Phase 2 of the budget cycle).*

The procedure followed in dealing with the budget bill in the two legislative chambers resembles that described in § 23 and 24 (Adoption of the budget in the Federal Government) so closely that we need devote only a few words to it here, paying attention instead to the figure of the Legislative Auditor in particular.

The Legislative Auditor is an official of the Legislature appointed by a joint committee from both Senate and Assembly, known as the Joint Legislative Budget Committee, to which he accordingly reports. His activities as regards the budget, however, are of importance primarily to the committees which prepare the way for the handling of the budget bill, i.e. the Committee on Ways and Means in the Assembly and the Finance Committee in the Senate.

The Legislative Auditor's main task is to analyze and criticize the

Governor's budget proposals. For this purpose he is empowered to request the Executive for the information he requires and he also attends hearings held by the Budget Division (see § 70).

After the conclusion of these hearings he draws up a comprehensive report, dealing with the budget proposals in detail, as far as required and drawing certain conclusions (approval, non-approval, reduction, increase).

This report is printed and therefore at the disposal of all those concerned with the budget; in particular, the Committee on Ways and Means and the Finance Committee.

For the purpose of dealing with the Governor's budget proposals these committees are divided into sub-committees, each of which deal with particular sections of the budget in public hearings. The Executive is represented at these hearings by the Department of Finance (Budget Division), and by delegates from the departments whose budgets are dealt with. The Executive defends the Governor's budget, the Legislative Auditor who attends all the hearings gives his opinion on it and the sub-committee ultimately comes to a decision.

On the termination of the hearing the sub-committee has to report to the plenary committee. This report is drawn up by the Legislative Auditor.

The plenary committee generally accepts the recommendations of the sub-committees. After this the Chairman of the committee refers the bill to the floor where the committee's advice is usually acted upon.

When the budget has been approved by the Legislature about March or April, this does not mean that the Legislative Auditor's work has finished for the time being. He is the oracle in the budgetary and other financial matters for the members of the Legislature. Besides this, he visits various departments during the period before his work connected with the following budget begins. The aim of these visits is primarily to see that the promises made by the Executive, either in writing in the budget proposals themselves, or verbally, at the hearings, have been fulfilled. In the second place, they represent a general control of efficiency [9]), while they finally serve to increase the Legislative Auditor's acquaintance with the working methods and organization of the State departments.

In my opinion it is right and proper that the Legislature should possess an officer (or a unit [10])) that provides it with information in

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[9]) The efficiency control is the task of the Joint Legislative Budget Committee, as appears from the definition of this committee's duties, which reads, in part, as follows: "It shall be the duty of the Committee to ascertain facts and make recommendations..., with a view of reducing the cost of the State Government, and securing greater efficiency and economy".

[10]) At present the Legislative Auditor is assisted by a staff of 17.

the way the Legislative Auditor does. For it is clear that, in view of the size of the budget, the members of the Legislature have insufficient time to go into the budget proposals as deeply as is necessary for the purpose of control, without information of this kind.

The title Legislative Auditor is in my opinion incorrect; this official is not an auditor but a fiscal adviser or counsel.

§ 73 - *The execution of the budget and the control of accounts (Phase 3 and 4 of the budget cycle).*

Since in the financial system of the State of California, as in the case of that of the City of Berkeley, the bookkeeping and control of accounts are partly in the hands of the same department, it is not possible to treat phases 3 and 4 of the budget cycle separately, at the same time making sufficient distinction between the two. They will therefore be dealt with together in §§ 74 to 78.

§ 74 - *The accounting system.*

Section 13290 of the Government Code [11]) reads as follows:

"The department [12]) shall devise, install, supervise, and at its discretion revise and modify a modern and complete accounting system for each agency of the State permitted or charged by law with the handling of public money or its equivalent, to the end that all revenues, expenditures, receipts, disbursements, resources, obligations, and property of the State be properly, accurately, and systematically accounted for and that there shall be obtained accurate and comparable records, reports and statements of all the financial affairs of the State".

The Department of Finance has this work, i.e., the installation of an accounting system for the various departments and agencies, performed by the Management Analysis Section of the Budget and Accounts Division (see § 70).

§ 75 - *The Controller.*

The organization chart on page 320 shows that the State Controller of California, who is elected by the people for a period of 4 years, is responsible for a number of tasks (collection of certain taxes, administration of Government property) which have no relation at all to his real task as *auditor*. For our purpose we shall therefore omit the following from our discussion: Inheritance and Gift Tax Division, Motor Vehicle Fuel Tax Refund Division, Tax-Deeded Lands Division, Advisory Committee on Tax-Deeded Property. The Division

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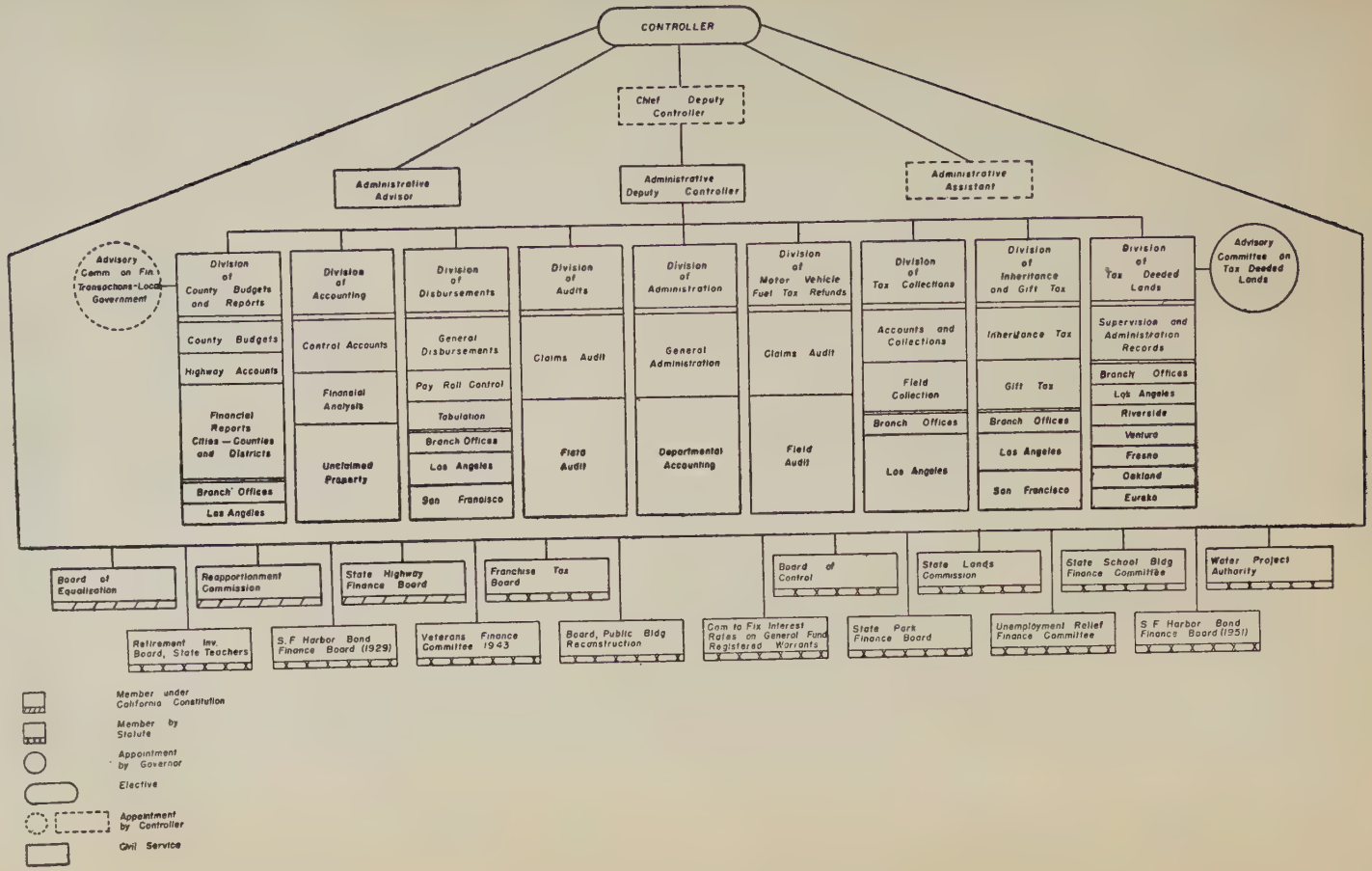
[11]) The Government Code is a codification of laws relating to the organization, operation and maintenance of a system of State and Local Government.
[12]) Of Finance.

OFFICE OF THE CONTROLLER
ORGANIZATION CHART



of Administration deals with the internal affairs of the State Controller's Office.

The following of the Controller's functions will be dealt with:

I - Auditing of the financial operations by the State;
II - Maintenance of the central accounts;
III - Drawing of warrants;
IV - Settlement of claims;
V - Activities concerning local government agencies;
VI - Reporting.

I - *Auditing of the financial operations of the State.*

Section 12410 of the Government Code reads, in part, as follows:

"The Controller shall superintend the fiscal concerns of the State, and audit all disbursements of state money for correctness, legality and sufficient provisions of law for each disbursement."

The work ensuing from this provision is performed by the *Claims Audit Section* of the Division of Audits, which carries out a pre-audit of all state agency expenditures.

The various operations can be briefly described as follows:

When an agency wants to buy goods or services, it sends a requisition to the Central Supply Service which writes out a Purchase Order (P.O.). One copy of the P.O. is sent to the Claims Audit Section. (If there is a purchase *contract,* a copy of it is filed with Claims Audit).

As soon as the goods have been delivered or the services rendered, the agency fills in a prescribed form supported by documents (e.g. invoices). The forms are entered on a *Schedule of Bills Filed* and sent to Claims Audit. There the invoice is checked against the P.O. (and against the contract, if any), and further necessary arithmetical, formal and legal checks are made.

If the Section does not agree with the statements, it will inform the agency of deductions or additions (arithmetical errors, for example) or it will send back the documents annotated with the objections raised (claims exception). The bill is then provisionally disapproved and the agency must try to get the exception removed. If disagreement between the agency and the Claims Audit Section [13]) remains, the agency can appeal to the State Board of Control (see § 77). The Board can only give advice, which the Controller is not obliged to follow. If the agency is not satisfied, it can go into Court on the matter.

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[13]) If the difference of opinion between the agency and the Controller is of a legal nature, Claims Audit asks the opinion of the Attorney General. The Controller is, of course, not bound by this opinion.

In general, differences of opinion between the Claims Audit Section and the agencies are settled without recourse to the Board of Control or the Courts.

After the amount to be paid has been finally determined, the papers are passed to the *Accounting Division* (see III).

There are two observations to be made regarding the task of the Controller mentioned above.

The control, as described, is a pre-audit. Now, experience has taught that audit before payment can be carried out on rational lines, if the number of transactions involved is relatively few and confined to a small geographical area, but that, if the number of transactions and the degree of decentralization increase, pre-audit becomes an evermore difficult business. Thus one witnesses departures from the system of pre-audit first on a small scale and then on a large scale. These deviations usually take the form of a revolving fund, e.g. a payroll revolving fund is set up. An agency which disposes of such a fund can make salary and wage disbursements out of it and submit the payrolls to audit later on. After audit the amount approved by the auditor is sent by check to the officer in charge of the revolving fund, the amount of the check being debited to the relevant appropriation. The control therefore becomes an after-payment audit.

The administration of the State of California also makes use of revolving funds in the manner described above, which amounts, in fact, to decentralization. In § 79 we shall recommend a still greater degree of decentralization.

Our second point concerns the character of the audit. According to the definition given in Section 12410 this includes only *verification* and not a check on efficiency. The latter is indeed very difficult to carry out by means of a pre-audit, which naturally takes the form of a desk audit.

Nevertheless the Controller is charged with a certain task relating to efficiency, since Section 12411 reads: "The Controller shall suggest plans for the improvement of the management of the public revenues".

II - *Maintenance of the central accounts.*

Section 12412 of the Government Code reads:

„The Controller shall keep and state all accounts in which the state is interested and keep a separate account under the head of each appropriation, showing at all times the unexpended balance of the appropriation".

Section 12413 reads:

„The Controller shall keep an account between the State and the Treasurer and charge the Treasurer with the balance in the Treasury when he comes into office and with all the money received by him and credit him with all warrants drawn on him and paid by him".

According to these two sections the Controller is therefore responsible for the task of maintaining the (main) accounting of the State. In performing this task he unites in his person the task of an independent auditor and of an executive officer; a combination of functions which we have already condemned in the case of the City of Berkeley.

The main accounting is performed by the *Accounting Division* which deals with revenue and expenditure in the following manner:

Receipts. All moneys belonging to the State must be deposited with the Treasurer. In order to remit such moneys to the Treasurer, the remitter fills in a *Controller's Remittance* in quadruplicate; he receives one copy back himself and another goes to the Controller (Accounting Division). The Treasurer credits the amount to a collection account *„Uncleared Items"* and later cashes the checks which were handed over to him as money. Afterwards he sends the Controller a *Clearance Notice* which shows the amount(s) actually received in cash. A *Controller's Receipt* is now made out in quadruplicate in the Controller's Office, showing the amount(s) and the funds to be credited. One copy of the receipt goes to the remitter, whose remittance is thereby legally acknowledged for the first time, one to the Treasurer, who can now debit *Uncleared Items* and credit the appropriate funds, while another copy is held in the Accounting Division to be used for posting.

Expenditure. The Claims Audit Section sends the bills which have been approved to the Accounting Division, where it is ascertained whether the relevant appropriation has sufficient credit available and whether there is sufficient money in the fund out of which the bills must be paid. If this is so, the necessary postings are made; thus here, too, the cash is credited on the basis of checks, or warrants, issued, since payment is made by means of warrants drawn on the Treasurer.

III - *Drawing of warrants.*

After the postings have been made, the Accounting Division sends the approved documents to the *Division of Disbursements.* Here the warrants (checks) are made out with the help of bookkeeping and tabulating machines. About 120,000 are dealt with every month. A punch-card is made for every check and this card remains filed until the check is returned by the Treasurer as paid. In this way it is simple for the Division to determine at any moment the amount of outstanding checks. This amount is required, among other things, for the *reconciliation* of the Controller's and the Treasurer's books.

IV - *Settlement of claims.*

For a number of general remarks on the settlement of claims the

reader is referred to Chapters I & VIII. We saw there that in the Federal Government system it is the Comptroller General who is primarily responsible for settlement.

A greatly abbreviated version of the system in force in the State of California according to the Government Code, Section 16000-16054, follows.

1 - The Controller is charged with the settlement of claims for which moneys are available in an appropriation or a fund.

If the Controller approves the claim, he has to draw a warrant for the amount approved. If he disapproves, he must inform the Board of Control (see § 77) of this, giving his reasons for disapproval. The claimant can now appeal to the Board, and if the latter shares his objection, the Controller has to re-consider the case. If the Controller again rejects the claim, the claimant can appeal to the Legislature.

2 - If there is no money in the relevant appropriation or fund, the claimant must apply to the Board directly. The Board investigates the claim and makes a report to the Legislature.

3 - In the case of certain claims, viz. (1) on express contract, (2) for negligence, (3) for the taking or damaging of private property for public use, the claimant must also put his case before the Board first of all; should the Board reject his complaint, however, the claimant can apply to a court.

V - *Activities concerning local government agencies.*

1 - As appears from § 71 the State of California provides the lower jurisdictions (counties, cities, school districts and such like) with large sums of money. The Controller is charged with the post-audit of the manner in which this money is spent. This audit performed by the *Field Audits Section* of the Division of Audits.

2 - Section 12422 of the Government Code provides that the Controller shall assemble at least once a year with the county auditors [14]) "... for the purpose of discussion of problems dealing with county budget procedure, reporting of financial transactions of the counties and to promote uniformity of procedure in all matters pertaining to the duties of county auditors ..."

The Controller likewise has to meet the county tax collectors and redemption officers to discuss their problems and to promote uniformity (Section 12433).

Finally, Section 12424 of the Code allows the Controller to "render service pertinent to the financial, budget and taxation problems", the cost of such service being reimbursed.

The duties mentioned under 2 above are performed for the Controller by the *Division of County Budgets and Reports* (see Chart on page 320).

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[14]) including the city auditors.

VI - *Reporting.*

A - Pertaining to the State.

1 - If so required, the Controller must provide both houses of the Legislature with information in writing (Code Section 12462).

2 - Every month the Controller must provide the Department of Finance with a return showing: the amounts of each fund in the Treasury on the first working day of the month, the total amount appearing in the Controller's books and the amount of the outstanding warrants (Section 12466).

3 - Every year a report must be made (Section 12460) to the Governor, giving, among other items, the following tabular statements:

(a) The amount of each appropriation for the preceding fiscal year, the amounts expended, and the balance, if any;
(b) The revenues and cost of government of the State for such fiscal year classified in such manner and detail as the Controller may determine;
(c) The receipts, disbursements and closing balances of each fund in the State Treasury for such fiscal year.

B - Pertaining to local government agencies.

The counties, cities and other local governmental agencies are required to provide the Controller with information sufficient to enable him to publish a summary of their financial transactions. These jurisdictions must make their reports "in the time, form, and manner prescribed by the Controller" (Section 12463). In addition to the *Division of County Budgets and Reports,* the Controller also has at his disposal a committee appointed by himself and consisting of seven local governmental officers to assist him in performing this task.

§ 76 - *The Treasurer.*

The Treasurer is charged with the task of receiving, holding and expending all moneys belonging to the State. As regards the manner in which he deals with receipts and expenditure the reader should refer to the preceding section. The checks paid by him are transferred to the Controller in exchange for a receipt.

The control of the Treasurer's cash is entrusted to the head of the Department of Finance (Director of Finance). The money in the Treasury must be counted at least once every three months and the figures published in a newspaper in the City of Sacramento, the capital of the State.

The Treasurer is an elected officer with a 4-year term of office. This arrangement seems to me to be outdated. The Treasurer is an executive officer and should, in my opinion, be appointed by the Executive, his office being incorporated in the Department of Finance.

§ 77 - *The Board of Control.*

The State Board of Control consists of three members: the Director of Finance (chairman), the Controller and a third member appointed by the Governor.

The Board has a number of functions (laid down in Sections 13900-13944 of the Government Code) which are very varied in character, as appears from the following enumeration, which mentions the most important of them:

(1) the determining of the conditions governing the payment of expenses and allowances to State employees traveling on official State business;
(2) the determining of the amounts to be deducted from the salaries of State employees on account of: maintenance, living quarters, housing, lodging, board, meals, food, household supplies, fuel, laundry, and other services furnished by the State as an employer to its employees;
(3) the making of awards to state employees who propose new procedures or changes in existing procedures, when these are placed in effect and lead to reduction in State expenditures;
(4) the determining of regulations governing the presentation and audit of claims against the State for which an appropriation has been made and for which a State fund is available;
(5) the exercise of a certain control on the Controller: Whenever the Chairman of the Board has reason to believe that the Controller has drawn a warrant without authority of law, or for a larger amount than the State actually owes, he can notify the Treasurer not to pay the warrant;
(6) the issue of discharges from accountability: the Board is authorized to discharge accountable and collecting officers from collecting small sums which do not justify the cost of collection.
(7) the issue of rules for State automobile control.

The Board of Control is a State organ that is actually a very strange phenomenon in the sphere of public finance.

Two of its members, one being the chairman, are executive officials, or appointed by the Executive, the other is the Controller, who is elected. This means that the Executive is in the majority on the Board.

There is no objection to this as long as the Board's activities are purely executive in nature (as in 1 to 3 above); but in this case it is not necessary for an elected officer, who is not a member of the Executive (the Controller), to share in the execution of the Board's tasks. In other words, I am of the opinion that functions 1 to 3 could just as well be transferred to the departments or other agencies. In fact this would be better.

There is, however, a great objection to the majority enjoyed by the Executive officers on the Board when it comes to the framing of rules under point 4, for these rules chiefly apply to the Executive itself. It is therefore necessary that the principal rules should be laid down by the Legislature and their further application left entirely to the controlling body (Office of the Controller).

It is exceedingly strange that under point 5 an executive officer

(the Director of Finance) should be authorized in some way to control an elected officer (the Controller). This is a mistake which results from another mistake, viz., that the Controller is not only an *auditor* but also an *executive* officer insofar as he draws warrants and keeps the State's books.

The function under point 6 should, in my opinion, be carried out in such a way that the Executive puts forward the proposal and the independent Controller makes the decision.

Likewise, in the matter of the ultimate settlement of claims, the Executive, being one of the parties involved, should have no say in the decision.

§ 78 - *The post-audit of the Department of Finance.*

We saw in § 74 that the Department of Finance is charged with the installation of the accounting systems of all State agencies. This department is also responsible for the financial audit of those agencies. In this connection Section 13294 of the Government Code reads as follows:

„The Department [15]) shall examine and expert the books of the several State agencies, at least once a year, and as often as the director deems necessary".

Section 13296:

„The Director shall supply to the Controller a certified copy of each periodical audit of the accounts of any State agency".

These activities have been performed since 1941 by the *Audits Division* of the Department of Finance. The audit takes the form of a post-audit of all government agencies *and also of the Controller's records*. The Division performs its task on the lines of a public accountant's office which was also clear to me from a reading of some of the reports.

It is clear that the Executive, i.e. the Governor, must perform checks on the financial transactions of its various departments. And it is logically justifiable that this *internal* audit should be either entirely or partly centralized in the Department of Finance. But there is absolutely no justification for extending the Executive's internal audit to cover the records of the independent Controller. Yet here again the mixed functions of the latter play their part, and we shall express our opinion on this in the final section.

§ 79 - *Appraisal.*

If the reader recalls the opinions and suggestions for alterations we put forward in the last two chapters he will already be aware

[15]) of Finance.

of the recommendations we would make in the case of the financial system of the State of California.

Preparation of the Budget. The preparation and the later control of the budget is a task for the Executive, which must dispose of an organ for the purpose. The head of such an organ, or body, occupies a very special position since he must judge the budget proposals of the various heads of departments, who are, in fact, the highest officials in the State, after the Governor. It is, therefore, essential that this body which has to deal with the budget should enjoy the full support of the Governor's authority, and in order to achieve this it is desirable that in the scheme of organization the Budget Bureau should be as close as possible to the head of the Executive. This means that we would recommend that the Bureau of the Budget should be transferred from the Department of Finance to the Office of the Governor as is already the case in the Federal Government and in the State of New York.

Form of the Budget. The Budget is efficiently organized; further praiseworthy aspects are that it is a *double* [16]) budget and that two important sections of it (Capital Outlay and Local Assistance Budget) tend to take the form of a *performance* budget.

The increasing scope of State activity and the consequent wider scope of the budget make it ever more difficult for members of the Legislature to get a proper grasp of the budget proposals. It is accordingly a wise thing that the Legislature should have instituted a service which provides it with information. This service is provided by the *Legislative Auditor.* The latter has an important and responsible task to perform, which, if executed along broad lines, can render a very useful service to the public. In my own opinion the title of *Auditor* is incorrect, as has already been said.

Accounting and Auditing. If the State of California should desire to bring its accounting and auditing system into line with modern scientific concepts, it will find an excellent example in the Federal Government's *Budget and Accounting Procedures Act of 1950.*

If the example of this Act were to be followed, the following changes would be introduced, in addition to those indicated for the Bureau of the Budget.

I - The *Treasurer* would no longer be an elected officer, but would be appointed by the Department of Finance. The entire payments-service would come under his direction, i.e. the Controller would be relieved of the task of drawing warrants.

II - The main State bookkeeping would no longer be performed by the Controller, but in the Department of Finance. The accounting

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[16]) i.e. it makes a distinction between current and capital expenditure.

of the various departments and agencies would be consolidated or integrated in the main accounting system.

The installation of the various accounting systems would follow general principles laid down by a joint committee composed of the Controller, the Bureau of the Budget, the Department of Finance and the Legislative Auditor, the last-mentioned in the capacity of observer.

III - *Internal Audit.* Insofar as the size of their financial transactions warranted such an arrangement, the departments and agencies would need to have their own system of internal financial audit, the Department of Finance exercising a certain super audit. The internal audit could be organized according to regulations laid down by the joint committee mentioned under II above.

IV - *External Audit.* The Controller would have to be relieved of *all* the executive functions he at present exercises. In the first place his duties regarding the collection of certain taxes and the administration of State lands would be transferred to the Executive and also the task of drawing warrants and the keeping of the central accounts. In this way the Controller would become what he should be, that is to say, an *auditor,* and further, in view of the great size of the financial administration, a *post-auditor.*

In a well organized system of internal audit, verification can be based largely on the internal audit itself, thereby permitting the Controller to pay more attention to the appraisal and promotion of efficiency and economy in management which, in our opinion, is of pre-eminent importance.

In view of the scope and significance of the Controller's task and the great responsibility it brings with it in practice, we should prefer the Netherlands system (see § 54). This would mean that the Controller's functions would be performed by a Board of Auditors, consisting, for example, of three persons, appointed for life by the Legislature.

In this new system there would be no room for the existing Board of Control unless it assumed the form and functions of the above-mentioned joint committee.

THE FINANCIAL SYSTEM OF THE STATE OF NEW YORK

§ 80 - *The Government in general.*

The diagram on page 331 shows the structure of the government administration of the State of New York.

The following branches will be dealt with in our description: The Division of the Budget, the Department of Taxation and Finance and the Department of Audit and Control.

§ 81 - *The preparation of the budget (Phase 1 of the budget cycle).*

Article VII, 2 of the Constitution of the State of New York reads as follows:

"Annually, on or before the first day of February, the Governor shall submit to the Legislature a budget containing a complete plan of expenditures proposed to be made before the close of the ensuing fiscal year and all moneys and revenues estimated to be available therefore, together with an explanation of the basis of such estimates and recommendations as to proposed legislation, if any, which he may deem necessary to provide moneys and revenues sufficient to meet such expenditures. It shall also contain such other recommendations and information as he may deem proper and such additional information as may be required by law".

The operations ensuing from this provision are entrusted by the Governor to the Division of the Budget, which is a branch of the Executive Department, the latter being headed by the Governor himself.

In the course of the summer the Division of the Budget sends the departments and other agencies a booklet of about 30 pages, entitled *Instructions for Preparation of Budget Requests for the financial year 19...*

The departments etc., have to prepare their estimates of expenditure along the lines given in this booklet and fill the particulars in on prescribed forms, which are sent in quintuplicate with the necessary justifications to the Budget Division [17]). The five copies are distributed as follows: the original goes to the Director of the Budget; one copy to the Governor; one to the Assembly's Ways and Means Committee; one to the Senate's Finance Committee; while the last copy is retained in the department itself.

As regards the estimates of the Legislature and the Judiciary, the Constitution provides that these shall be included by the Governor in his budget without revision but with such recommendations as he may deem proper. The estimates of each house of the Legislature must be certified by the presiding officer of the house, while those of the Judiciary must be certified by the Comptroller. Thus, as regards the estimates of the Judiciary, the Comptroller fulfills the function of a bureau of the budget.

After the requests have been received they are dealt with by the *Examination Section*. This section consists of a number of units each

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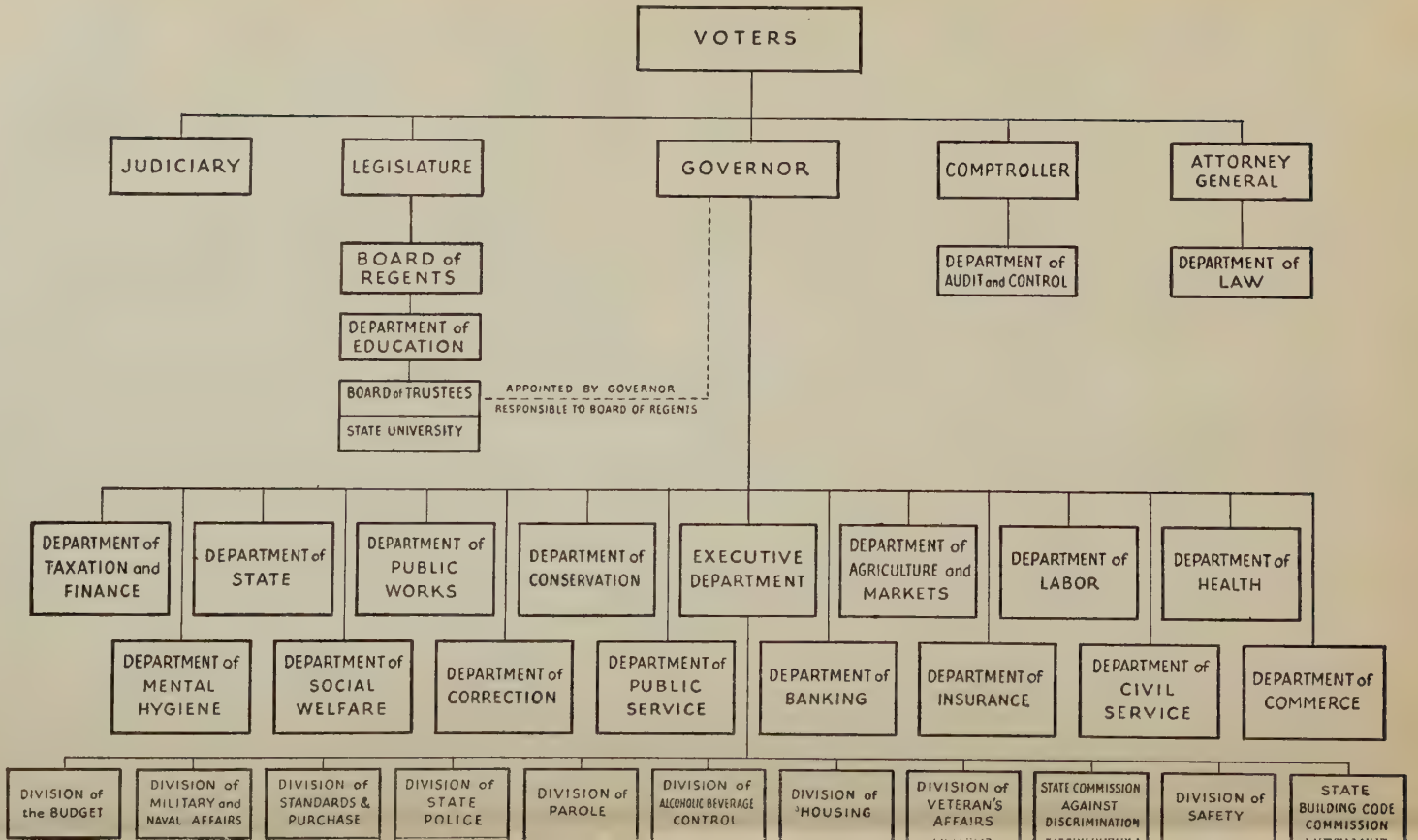
[17]) For the fiscal year 1951/52 the forms had to be received in the Budget Division not later than October 1, 1950.

ORGANIZATION OF NEW YORK STATE GOVERNMENT



of which deals with a group of agencies. A separate unit, the technical unit, exists for capital projects.

The budget examiners analyze the requests and hold informal hearings with the departments in order to be able to judge them properly. Small differences of opinion are cleared up in this way so that at the pursuant *formal* hearings only important administrative matters and questions concerning programs are dealt with.

The *formal hearings* take place about the middle of November and last about 10 days. They are presided over by the Director of the Division of the Budget, assisted by members of his staff, the heads of the various agencies appearing with their subordinates to elucidate and justify their requests. A special feature of these hearings is that the Legislature is invited to attend. In practice only the Chairman of the Assembly's Committee of Ways and Means and of the Senate's Finance Committee attend, however, accompanied by the secretaries of these committees.

After these hearings the Governor comes to a final decision on the basis of suggestions made by the Director of the Division of the Budget. The budget is then ready to be printed and is submitted with a Budget Message to the Legislature under the title of *Executive Budget*.

Article VII, 3 of the Constitution also provides that:

"At the time of submitting the budget to the legislature, the Governor shall submit a bill or bills containing all the proposed appropriations and reappropriations included in the budget and the proposed legislation, if any, recommended therein.

The Governor may at any time within thirty days thereafter and, with the consent of the Legislature, at any time before adjournment thereof, amend or supplement the budget and submit amendments to any bills submitted by him or submit supplemental bills".

The provision that the Governor must submit the necessary bills at the time of submitting the budget corresponds with the procedure followed in the Netherlands, as appears from Chapter III. In our opinion this procedure is to be recommended since the Executive, which draws up the budget proposals, is best fitted to draw up the necessary appropriation bills.

In addition to the Examination Section the Division of the Budget has two other sections similar to those described earlier on in this work, that is to say, the *Research Section* and the *Administrative Management Section*.

One of the very important tasks of the *Research Section* is to make estimates of revenue for inclusion in the Governor's annual budget. It is assisted in this task by the agencies concerned. Those of the Section's activities which relate to the execution of the budget will be mentioned in the following §.

The Research Section also undertakes all kinds of special studies, such as the history of the State debt, State-local fiscal relationships, Federal-state fiscal relationships and new budget presentation.

Finally the Section advises the Governor regarding the approval or veto of bills.

The Administrative Management Section closely resembles the Division of Administrative Management in the Federal Government's Bureau of the Budget, both in name and task. We can therefore refer the reader to § 18 for a general description of its duties.

Formerly the Section's work was performed by the budget examiners, but in 1944 it was centralized by the installation of the Section. The close relationship with the Examination Section has, however, continued to exist, which is clear from the following quotation from a paper by the head of the Administrative Management Section.

"It is important to stress that the Bureau is a specialized staff unit whose primary function it is to serve as a consultant to the Budget Director and budget examiners on such problems as organizational structure, staff-requirements, effective work systems and procedures, office machines and equipment, forms design and work measurement. Virtually, all of the major operational and management problems encountered by State agencies reach the desks of budget examiners and eventually the Administrative Management Bureau. The consequence is that there is a close working relationship between the Bureau and the Budget examiners. That is the every day picture".

The Section's activities are purely *advisory* which is clear from the following examples: reviewing budget requests, assisting agencies to administer new and expanded functions, reorganization of State agencies, management improvement and "trouble shooting", i.e. investigation of complaints to the Governor regarding the operation of certain agencies and the development of on-the-spot solutions to difficulties encountered by the agencies.

§ 82 - *The adoption of the Budget (Phase 2 of the budget cycle).*

The procedure regarding budget bills and appropriation bills in general is governed by certain provisions of a kind we have not met with before. These are provisions which lay certain restraints on the Legislature and which seem to be designed to make it difficult for it to (1) increase the amount of the budget estimates and (2) vote moneys for purposes not clearly defined.

These provisions, which are contained in sections 4 to 6 of Article VII of the Constitution, are mainly to the effect that:

1 - The legislature may not alter an appropriation bill submitted by the Governor except to strike out or reduce items therein.

2 - The Legislature may add in those bills items of appropriations provided that such additions are stated separately and distinctly from the original items of the bill and refer each to a single object or purpose.

3 - An appropriation bill under (1) shall when passed by both houses be a law immediately without further action by the Governor.

4 - Separate items under (2) added to the Governor's bills by the legislature shall be subject to his approval [18]).

5 - Neither house of the Legislature shall consider any other bill making an appropriation until all the appropriation bills submitted by the Governor shall have been finally acted on by both houses, except on message from the Governor certifying to the necessity of the immediate passage of such a bill.

6 - Except for appropriations contained in the bills submitted by the Governor and in a supplemental appropriation bill for the support of the government, no appropriation shall be made except by separate bills each for a single object or purpose. All such bills and such supplemental appropriation bills shall be subject to the Governor's approval [18]).

(N.B. Appropriations for the Legislature and the Judiciary are governed by somewhat different provisions.)

After the Governor's budget has been submitted to the Legislature it is passed to the Assembly's Committee of Ways and Means and the Senate's Finance Committee.

Public hearings are then held about the middle of February. These are held for sections of the budget by sub-committees made up of members of the Assembly and Senate Committees working *together.* Persons or groups, who so desire, may put in a request to be heard; the heads of departments or other departmental representatives *can* be summoned to attend, though this is not customary.

After the termination of the hearings the sub-committees report to their respective committees in full and next the bill comes before the respective house, where it is defended by the Chairman of the Committee. The procedure in the two houses comes to a finish by the end of February.

In the course of the month of March a supplemental bill (see item 6 above) is dealt with in order to correct errors in the budget bill, to request moneys for recent decisions of the legislature, and to take measures to "catch new situations" etc. This supplemental bill originates in the Legislature itself, that is to say, it is not presented by the Governor but by a member of the Legislature.

§ 83 - *Form of the Budget.*

Here, too, as in the case of the State of California (see Chapter XII) the budget is divided into two main sections: State Purposes and Local Assistance. The latter accounts for more than the half of the total budgetary expenditure — for the fiscal year 1951/52 it amounted to 57 %. The State Purposes budget is a „double" budget, the capital expenditure (Capital Construction Fund) forming a separate part of it.

A summarized version of the 1951/52 budget is given in the following tabular statement:

[18]) The provisions governing this approval are practically the same as those which apply to the President of the U.S. (see § 6).

BUDGET 1951/52 (Amount in millions of $)	
State Purposes	
Current operations	337
Debt Service	24
Capital Construction	46
Local Assistance	532
Total	939

The amount under "current operations" is divided into two main parts, viz., (1) personal service and (2) other maintenance and operation.

This division, which is also made in the Netherlands budget [19]), is recommendable in our opinion, since, if it is not made, the possibility exists that the organs of the Executive will devote more funds to personal service than to non-personal service.

Lump sum appropriations. It is often difficult to make an accurate estimate of personal and non-personal expenditure, particularly in the case of capital construction projects. In this case a „lump sum" appropriation is granted, though the agency concerned is not qualified to apportion the moneys involved but must request the Division of the Budget to do so.

First instance appropriations are authorizations to various state agencies to spend State funds in advance of reimbursement. They are reimbursable in their entirety.

These appropriations thus play the same part as revolving funds.

Funds. The fund system is applied in the financial administration of New York State, too. The General Fund, however, is of predominant importance.

§ 84 - *The Execution of the Budget (Phase 3 of the budget cycle).*

I - *Work performed by the Division of the Budget.*

Apportionment is not applied as a rule, though the Examination Section must make the allocations of the "lump sum" appropriations and the transfers from the Emergency fund into other funds, when the emergency appropriations have to be used.

In addition, a list is made each month (on form 8D-577) from the Comptroller's books, on the Budget Division's account, which list shows the state of each appropriation (a separate form being used for each and remaining in use a whole year). Particulars are given for the month just expired and for the fiscal year upto that

[19]) But not in the U.S. Federal Budget.

month, divided under the following headings: appropriation available, expenditures, appropriation balance, unpaid obligations, unencumbered appropriation, the last three referring to the position at the end of the month.

These returns are analysed by the Research Section, which analysis serves as a control on the budget expenditure by the Division of the Budget. Besides this check, the budget examiners pay visits to the various departments during the period before work on the subsequent budget begins, in order to acquaint themselves with the situation.

II - *Work performed by the departments.*

In order to study a typical case, I visited the Department of Labor, which has an *Administrative Finance Office* responsible for accounting administration.

Here, too, the now familiar Purchase Order (P.O.) is used for obtaining goods or services, so that further description is unnecessary.

A *General Ledger* (double entry) and a *Detail Appropriation Ledger* are kept for financial records. In the latter the first posting in the beginning of the fiscal year is the appropriation; the P.O.'s serve for posting the encumbrances, while these are liquidated and the payments posted on the basis of copies of the Comptroller's warrants.

Every month the ledger sheets of the Detail Ledger — which are a duplicate of those in the Comptroller's office — are compared with the Comptroller's books.

Expenditures are further detailed — according to the unit of the department and nature — in the Expense Ledger. This specification is of great assistance in judging the budget requests for the following year, for the Administrative Finance Office also functions as the department's budget officer.

Four main accounts are kept in the General Ledger: Cash Balances, Appropriations, Encumbrances and Reserve for Encumbrances.

The collective postings to these accounts are elucidated by the following journal entries:

Cash Balances

To appropriations
to record appropriation bill

Encumbrances

To Reserve for Encumbrances
to set up P.O.'s for the month

Reserve for Encumbrances

To Encumbrances
to liquidate encumbrances
Appropriations

To Cash Balances
For payments during the month

III - *Work performed by the Division of Treasury.*

Up to 1928 the Treasurer was an elected officer, since when the Treasury has formed part of the Department of Taxation and Finance. The head of the Treasury, known as the Deputy Commissioner, is nowadays appointed by the head (the Commissioner) of the Department of Taxation and Finance.

The Treasury is charged with the receipt, holding and expenditure of State moneys. The various procedures connected with these duties resemble, in their main features, those already described in previous chapters. It will therefore be possible to describe the system employed in the State of New York very briefly, drawing attention in the main to a few variations.

Receipts. The tax collectors have to remit their receipts into a bank, designated by the Comptroller and in the latter's name. This somewhat unusual provision results from the fact that Article VII Section 16 of the Constitution lays down that:

"the legislature shall annually provide by appropriation for the payment of the interest upon and installments of principal of all debts created on behalf of the State. ...If at any time the legislature shall fail to make any such appropriation, the Comptroller shall set apart from the first revenues thereafter received, applicable to the general fund of the State, a sum sufficient to pay such interest, installments of principal and shall so apply the moneys thus set apart".

In order to make sure that the Comptroller has always sufficient money available, tax revenues are remitted in the first instance to his account. When the month comes to an end the amount of net collections (receipts less restitutions) is transfered to the Treasury by check.

All other receipts have to be remitted by the accountable officers to the Treasury within ten days after the end of the month. During the time that the agencies themselves hold such moneys, they deposit them with a bank. The Treasury receives a return of the bank balances every month.

When the Comptroller or the agencies wish to remit money to the Treasury, they first fill in a prescribed form (Ac-909) in triplicate, one copy of which goes to the Treasury with the money or the checks, and one directly to the Comptroller, while the last is for the agency's own use.

Once a day a Treasury official goes to the Comptroller's Office with the forms to compare them with those received there and to

ascertain which fund(s) must be credited. The following morning the checks go to the banks for collection.

Receipts are posted on a Daily Cash sheet — in a loose-leaf cash book — a copy being sent to the Comptroller. The latter is also informed directly by the banks of the transactions.

The daily totals are transferred to a ledger, while the monthly totals are published in a *Bulletin* issued each month; this also gives the agencies' bank balances.

Although these latter balances are not, therefore, in the State's main bookkeeping, they are consolidated in this manner with the main bookkeeping figures.

Expenditures. Checks for payment, made out in the Comptroller's office (see § 85) and countersigned by the Comptroller, are signed in the Treasury and mailed to the payees. The Treasury debits its ledgers with the summary total of disbursements for each fund daily.

The Comptroller audits the Treasury at his discretion. Informally, balances are constantly confirmed.

In addition to the monthly *Bulletin* the Treasury issues an *Annual Report*. This latter report, which is published for the Legislature, must contain "an exact statement of the balance in the Treasury, at the close of the preceding fiscal year, with a summary of the receipts into and payments from the Treasury during such year".

IV - *Work performed by the Comptroller.*

The Comptroller's activities, which relate both to the execution and the audit of the budget, will form the subject of discussion in the following sections.

§ 85 - *The Comptroller (Partly Phase 3 and partly Phase 4 of the budget cycle).*

The Comptroller of the State of New York is an elected officer with a 4 year term of office. His main functions are given in Article VII of the Constitution and in more detail in the State Finance Law, Article II, § 8 of which reads [20]) as follows:

Duties of the Comptroller. The Comptroller shall:

1. Superintend the fiscal concerns of the State.
2. Keep, audit and state all accounts in which the State is interested, and keep accurate and proper books, showing their conditions at all times.
3. Examine, audit and settle the accounts of all public officers and other persons indebted to the State, and certify the amount or balance due thereon.
4. Audit the accrual and collection of all revenues and receipts.
5. Keep and maintain in alphabetical order a list of names and addresses of all State officers and employees.

[20]) this as an abridged version.

6. Examine, audit and liquidate the claims of all persons against the State, if payment thereof out of the Treasury is provided by law.

7. Audit all vouchers of any person, corporation, association, state or other public officer, department or institution, to whom or which moneys appropriated are payable, or are authorized or directed to be paid pursuant to law, before issuing his warrant for the payment thereof; vouchers shall be required in all such cases.

8. Draw warrants on the Treasury for the payment of the moneys directed by law to be paid out of the Treasury, but no such warrant shall be drawn unless authorized by law, and every such warrant shall refer to the law under which it is drawn.

9. Make a report to the Legislature at its annual session.

He shall also issue on or before the tenth day of each month and cause to be published in the state bulletin a statement setting forth briefly the several receipts and disbursements from the general fund.

10. Prescribe such methods of accounting as are necessary for the performance of his duties.

In order to carry out these duties the Comptroller has a *Department of Audit and Control* at his disposal. The organizational scheme of this Department is shown on page 340.

As this diagram is as good as self-explanatory, it will suffice if we add a few notes only.

The *Executive Division* is responsible for ordering all the internal affairs of the Department insofar as these are not already attended to by the Office of the Comptroller. The real operative units are the *Division of Audits and Accounts, Division of Municipal Affairs, Investments, and Employees Retirement System.*

The incorporation of the two last named divisions in the Comptroller's Department, whose function is audit, does not seem to be logical. This is, moreover, difficult to reconcile with the ban laid down in Article V, § 1 of the Constitution, italicized in the following quotation:

"...the Legislature shall define his (the Comptroller's) powers and duties and may also assign to him supervision of the accounts of any political subdivision of the State, *but shall assign to him no administrative duties, excepting such as may be incidental to the performance of these functions...* [21]).

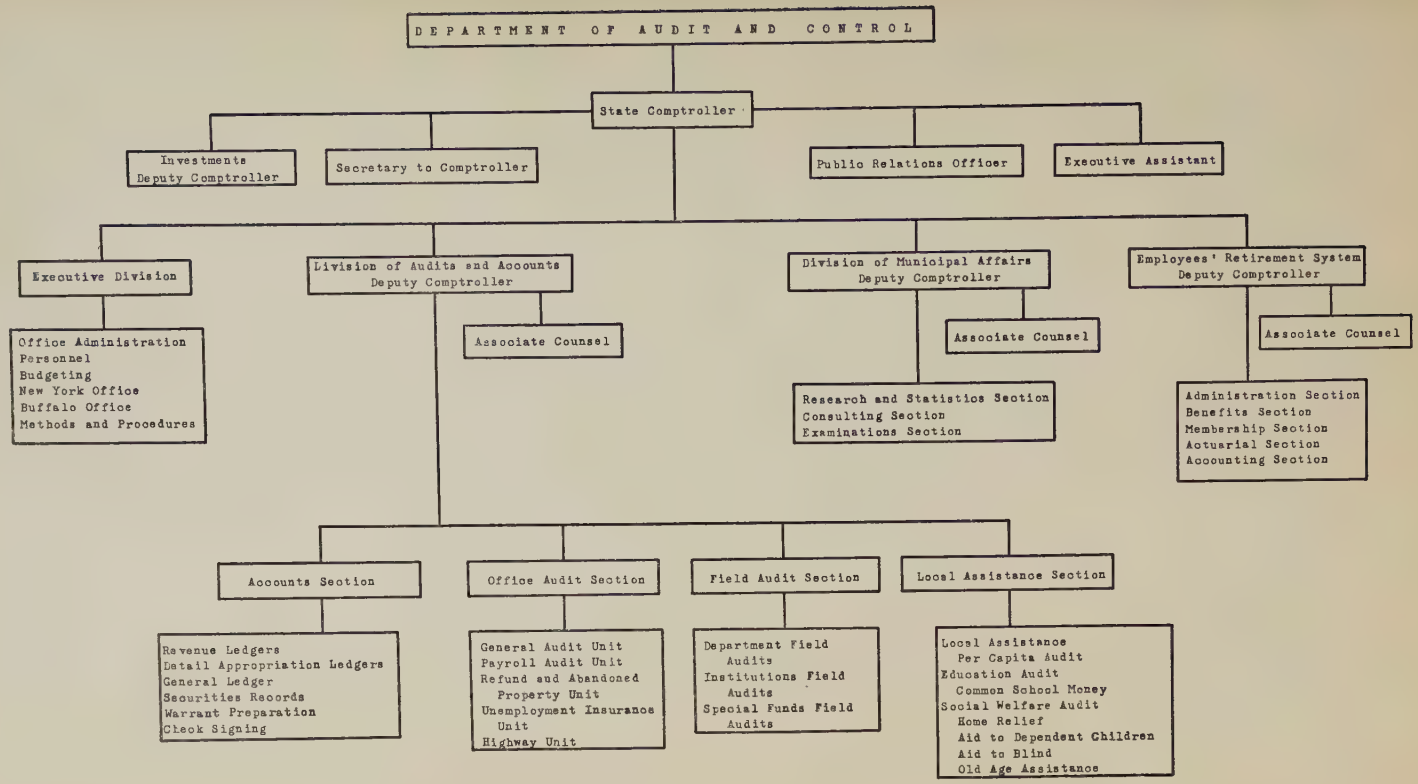
The Comptroller's duties regarding the execution and audit of the *State* budget are performed on his behalf by:

I - *The Division of Audits and Accounts.*

Receipts. State receipts have already been partly dealt with in § 84, III. Insofar as these are paid into the Treasury directly, they are registered by the *Accounts Section* by means of the form A.C-909 mentioned in § 84.

As regards tax receipts the procedure is as follows: the tax collectors remit their receipts to the bank designated by the Comptroller in the Comptroller's name and receive a duplicate deposit slip from

[21]) Author's italics.


DEPARTMENT OF AUDIT AND CONTROL
State Comptroller
Investments
Deputy Comptroller
Secretary to Comptroller
Public Relations Officer
Executive Assistant
Executive Division
Office Administration
Personnel
Budgeting
New York Office
Buffalo Office
Methods and Procedures
Division of Audits and Accounts
Deputy Comptroller
Associate Counsel
Division of Municipal Affairs
Deputy Comptroller
Associate Counsel
Research and Statistics Section
Consulting Section
Examinations Section
Employees' Retirement System
Deputy Comptroller
Associate Counsel
Administration Section
Benefits Section
Membership Section
Actuarial Section
Accounting Section
Accounts Section
Revenue Ledgers
Detail Appropriation Ledgers
General Ledger
Securities Records
Warrant Preparation
Check Signing
Office Audit Section
General Audit Unit
Payroll Audit Unit
Refund and Abandoned Property Unit
Unemployment Insurance Unit
Highway Unit
Field Audit Section
Department Field Audits
Institutions Field Audits
Special Funds Field Audits
Local Assistance Section
Local Assistance
Per Capita Audit
Education Audit
Common School Money
Social Welfare Audit
Home Relief
Aid to Dependent Children
Aid to Blind
Old Age Assistance

the Bank in return. They send one of the slips to the Comptroller, who debits the relevant bank with the amount concerned. If required, the tax collectors make up *refund schedules,* the amounts of which are repaid out of the bank balances after audit by the Comptroller. Once per month the Comptroller remits the proceedings to the Treasurer, retaining an amount sufficient in order to be able to make coming refunds. The amounts of these proceedings are booked in the *Revenue Ledgers.*

Expenditures. When an agency wishes to buy goods it writes out a Purchase Order (P.O.). If the amount involved exceeds $ 500, the Comptroller's prior approval must be obtained. The P.O. is sent to the *Audit Section,* where it is first ascertained whether there is a contract covering the purchase. If so, the P.O. is compared with the contract. Should this check give rise to criticism, the agency receives a rejection slip stating the objections. If there are no criticisms, or if these have already been disposed of, the P.O. goes to the Accounts Section where the amount is encumbered in the Detail Appropriation Ledger. (Should the balance of the relevant appropriation be insufficient, the P.O. is returned to the agency). After encumbrance, the P.O. is put into the so-called *live-file.*

After the agency has received back the approved copy of the P.O., the purchase can be made. The vendor must fill in particulars of his delivery on a Purchase Voucher (P.V.) and after certification by the agency, this is despatched to the Accounts Section. There the P.O. is removed from the live-file and sent with the P.V. and any other documents to the Audits Section where the audit is performed. This begins with an arithmetical computation after which the audit clerks compare the voucher with the contract, if one exists. (Contracts are made for all important purchases). The documents then go to a certifier for double check, mainly to ensure that the amount to be paid is correct. After certification for payment they go to the Accounts Section. (If the audit reveals any irregularity, a rejection slip is made out and sent to the agency. Despatch to the Accounts Section is then delayed until the Audit Section's objections have been disposed of.)

When the documents have been received back in the Accounts Section, the P.O. is filed away in the *dead-file,* while the P.V.'s are sorted according to agency on *schedules for payment.* On the basis of these Schedules the encumbrances in the Detailed Appropriation Ledger are liquidated and payment booked.

The Schedules for payment then go together with the P.V.'s to the *Warrant Preparation Unit,* where warrants [22]) are made for the

[22]) In New York a warrant is not a check. It is an order by the Comptroller on the Treasury to make payment.

checks to be issued. These warrants go with the P.V.'s to a typing unit where the checks are typed out, the amount and space for signature being left blank. The amounts are then processed by a machine, after which the whole bunch of checks goes to the *Signing Unit* where the Comptroller's name is impressed (countersign) and the total amounts recorded for comparison with the warrants. A copy of the warrants and the checks are sent to the Treasurer, who has the checks signed in his name and mailed to the payees (see also § 84, III).

A further copy of the listings goes to the *Control Ledger Unit* where the totals are posted in the General Ledger.

The above procedure applies to the purchase of goods. Similar procedures apply to other expenditures, though special forms are often used, such as a Payroll Voucher, a Travel Expense Voucher, etc.

The foregoing description covers the "audit before payment" or pre-audit and the Comptroller's bookkeeping, as far as the State budget proper is concerned, i.e. the State Purposes budget. Besides the pre-audit there is, however, a post-audit, which is performed by the Field Audit Section.

The *Field Audit Section* has insufficient staff to maintain a continuous post-audit of the whole field of State finance.

The audit covers, among other things, a large number of State institutions such as the State schools and colleges, hospitals and medical centers, prisons and the motor vehicle organizations (control of licences); also the departmental accounting, though the range is so wide here that the audit has to be confined to certain fields. The Section itself decides what fields its audit shall stress.

I was given the opportunity to read through a number of the Section's reports. They can best be described by saying that they are entirely on the level of accountants' reports as brought out by certified public accountants when auditing private concerns; they also take the same form.

If the Local Assistance Section (see below) requires information to be obtained by an inspection of the books, it requests the Field Audit Section to undertake such an inspection.

The Field Audit Section is also charged with a part of the Comptroller's pre-audit, viz., the State Insurance Fund and a few funds in the Labor Department. Further the Agriculture and Markets Law makes the Section responsible for distributing money received for milk delivered by the farmers to certain central points.

Finally the Section devises accounting systems insofar as the Comptroller has been made responsible for such work (see page 339 point 10).

The Local Assistance Section. We have already seen in § 83 that

almost 60 % of the revenue of the State of New York is devoted to local assistance purposes. The allotment of these funds to the various purposes for they are intended which is governed by laws and regulations. In some cases the amount is calculated per head of population; in the case of the schools it is based on the attendance figures, etc.

Request for subsidies by Local Units authorized to receive assistance are submitted to the department concerned (in the case of schools to the Department of Education, for roads to the Department of Public Works and so on) where the amounts are determined and paid after audit by the Local Assistance Section, if necessary through the Field Audit Section (see above). Assistance in determining the size of subsidies to schools is lent by the Division of Municipal Affairs (see § 86), which Division possesses detailed reports on schools.

On Highway Aid, the Public Works Department assembles the data on which payments are based and passes this information to the Comptroller who determines the amounts payable.

General assistance (per capita) is determined by the Local Assistance Section without any action by State Agencies outside the Comptroller's Office.

In these last two cases the *Local Assistance Section* exercises an executive function rather than an auditing function, since it *determines* the amount of the subsidy.

§ 86 - *The Comptroller* (continued). *Audit of the lower Jurisdictions.*

The New York State laws charge the Comptroller with the general financial supervision of the lower jurisdictions. The work concerned is performed by the *Division of Municipal Affairs,* which is divided into three sections (see chart on page 340). The work of these three sections will be dealt with in turn.

The primary function of the *Consulting Section* is to assist local government to solve the many problems in the field of law, finance and administration, which cannot be solved locally, owing to inadequate facilities or because state-local relationships are involved, necessitating joint action.

Many questions from local officials on all manner of subjects are received by the Section under this head.

Advice is given to the Governor regarding bills relating to State and local government and very often also to the departments and members of the Legislature at their request.

The Examinations Section examines the accounts and fiscal affairs of all the units of local government except those of the cities of

New York, Buffalo and Rochester, and the five counties [23]) comprising the City of New York.

The examination takes the form of a post-audit performed on the spot every other year, two fiscal years being audited at the same time. The auditor's reports which take the form of normal accountants' reports are available for inspection by the public in the Office of the Comptroller.

Any errors or irregularities brought to light by the audit are mentioned in the reports and suggestions made for improvements, that is to say, the report serves as an educative guide to those concerned. The Comptroller is not authorized to disapprove payments.

The Research and Statistics Section consists of a Research Unit and a Statistics Unit. The former is active in all the various fields of local government, depending upon the requests or desires of the government or private individuals. The following subjects can be quoted to demonstrate the character of the work involved: investigation of emergency schoolbuilding needs, teachers' salaries, non-property tax, observation of debt limits.

The Statistics Unit is responsible among other things for devising uniform accounting systems for the lower jurisdictions, which are then prescribed by the Comptroller on the basis of law.

The Unit is concerned in the second place with the budgets of the local government units, which are subject to certain constitutional limits as regards the raising of taxes. If they overstep these limits the Comptroller is required by statute to withhold state assistance to the extent of such an excess. It is the duty of the Statistics Unit to report any excesses of this kind to the Comptroller.

In the third place the Unit checks the annual financial reports which the local government units have to render to the Comptroller in a prescribed form. After check, these reports are consolidated in a large number of statistical tables. These form the main body of the *Annual Report on Municipal Affairs,* which the Comptroller has to present each year to the Legislature.

§ 87 - *The Comptroller's Reports.*

The Constitution and certain Statutes require the Comptroller to supply the following:

1 - a brief monthly report concerning current General Fund receipts and expenditures. The relevant information is published in the State Bulletin.

2 - an annual Comptroller's Report to the People of the State of New-York. This is an account of the current fiscal policy and financial

[23]) A State is divided into counties (in the U.S.A. about 3000 in total). They can best be compared with „provincies" in the Netherlands.

condition of the State. The introduction to this report is elucidated in modern fashion by a number of picture statistics which are easily comprehensible.

3 - the Annual Report on Municipal Affairs mentioned at the end of the foregoing section.

§ 88 - *Appraisal.*

The reader will probably already have formed an idea of our evaluation of the financial system of New York State, if he is already aware of previous appraisals in this work.

Preparation of the Budget. It seems proper to us that the Division of the Budget should form a unit of the Office of the Governor. It is also proper that the budget bills should be drafted by the Executive and not by the Legislature.

Adoption of the Budget. In our opinion the Legislature is subjected to somewhat unnecessary limitations by the *form* in which it can amend the budget bills presented by the Governor.

Execution of the Budget. The arrangement by which the departmental bookkeeping is practically a duplication of the corresponding part of the Comptrollers's bookkeeping does not seem to us to be efficient. A way of avoiding this duplication is indicated further on.

The Treasury in the State of New York is, as we think it should be, a constituent part of the Department of Taxation and Finance. In this respect it is also logical that the Treasurer should be no longer an elected officer but should be appointed by the Director of the Department with the title of Deputy Commissioner.

The Comptroller. As in the case of the State of California the State Comptroller has two functions, viz., an executive and an auditing one. It seems almost superfluous to repeat that we do not regard such a combination of functions as in line with current ideas in practice and theory. If the system is to be modernized, the Comptroller must be exclusively an *auditor* with no executive functions.

Should such changes be made, the following measures would have to be taken:

1 - "Investments" should be transferred to the Department of Finance;

2 - The same applies to the Employees' Retirement System, unless this work were to be assigned to a separate Board;

3 - The Comptroller would be relieved of the task of drawing checks, which work would be performed by the Treasury;

4 - The Comptroller would be relieved of the task of maintaining the principal State bookkeeping; each department or agency (if of sufficient size) would have its own independent bookkeeping system, which would be integrated or consolidated by means of a centralized

bookkeeping maintained in the Department of Finance. (The duplication of work mentioned above would then be eliminated).

5 - The Executive would develop its own system of internal audit, while the Comptroller would be responsible for external audit, in performing which task he could rely, as far as he deemed desirable and possible, on the departments; this arrangement follows the example of the „Accounting and Auditing Act of 1950" with regard to the Federal Government's audit system.

6 - The Comptroller's audit would thereby become mainly a post-audit performed on the spot, and this would make it possible for proper attention to be given to the appraisal and promotion of efficiency and economy, which always falls into the background in the case of pre-audit (desk audit);

7 - The bookkeeping system to be adopted by the various State Units would follow the general principles laid down by the Comptroller, the Division of the Budget and the Treasury after mutual consultation;

8 - The Comptroller would be replaced by a Board of Comptrollers appointed for life by the Legislature.

THE BUDGET CYCLE IN THE FINANCIAL SYSTEM OF THE UNITED NATIONS

THE FINANCIAL SYSTEM OF THE UNITED NATIONS

§ 89 - *The United Nations and the Charter.*

The international organization known as the United Nations has a constitution in the form of its Charter.

According to Article 7 of this Charter the principal organs are: the General Assembly, the Security Council, the Economic and Social Council, the Permanent Central Opium Board and Drugs Supervisory Body, the Trusteeship Council, the International Court of Justice and the *Secretariat.*

In addition, relations have been established with a number of international organizations with a view to international economic and social cooperation (Chapter IX of the Charter). These international organizations are known as "Specialized Agencies". Practically autonomous, they are not financed from the United Nations budget. They consist of the following:

the International Labor Organization (I.L.O.);
the Food and Agricultural Organization (F.A.O.);
the United Nations Educational Scientific and Cultural Organization (Unesco);
the International Civil Aviation Organization (I.C.A.O.);
the World Health Organization (W.H.O.);
the International Bank for Reconstruction and Development;
the International Monetary Fund;
the International Telecommunication Union (I.T.U.);
the International Refugee Organization (I.R.O.);
the Universal Postal Union (U.P.U.).

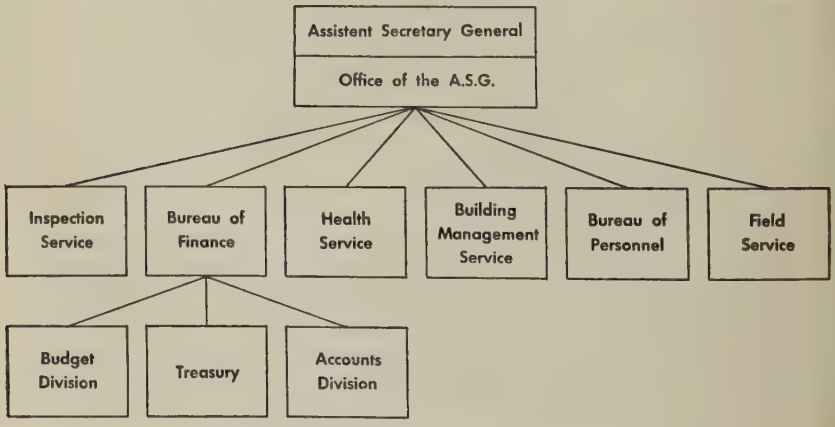
The purpose of the Specialized Agencies is clear enough from their designations, so that further elaboration is unnecessary here.

§ 90 - *The governmental system of the United Nations.*

Legislative power in the United Nations is exercised by the General Assembly in which all Member States are represented. Executive power is vested in the Secretary-General. The International Court of Justice pronounces verdicts in the case of disputes between member states, insofar as such disputes are submitted to it.

For the purpose of fulfilling his executive duties the Secretary General, with his Headquarters at New-York, has at his disposal the Secretariat. This consists of the Secretary-General's Executive Office and a number of large departments, such as the Departments of Security Council Affairs, of Economic Affairs, of Social Affairs, of Public Information, of Legal Affairs, of Trusteeship and Information from non-selfgoverning Territories, of Conferences and General Services, the Technical Assistance Administration, and the *Department of Administrative and Financial Services*. Each department is headed by an Assistant Secretary-General.

Department of Administrative and Financial Services



§ 91 - *Organization of the Department of Administrative and Financial Services.*

The diagram on page 347 gives a clear idea of the structure of this department, whose operations will provide us with a considerable part of the material used in describing the budget cycle.

It will be clear from the diagram that we shall have to concern ourselves with the Bureau of Finance and its subdivisions and with the Inspection Service.

§ 92 - *Financial Rules of the United Nations.*

The Financial Regulations of the United Nations form the basic law governing financial administration, the text at present in use [24]) having been determined by the General Assembly on 16 November 1950. As an outcome of these Regulations a set of Financial Rules [25]) were drawn up by the Secretary General, which rules came into operation on 21 December 1950. The provisions of these "Regulations and Rules" provide the fundamentals for our discussion of the various phases of the budget cycle.

§ 93 - *The preparation of the budget (Phase 1 of the budget cycle).*

The preparation of the budget is one of the most important functions of the Budget Division of the Bureau of Finance.

Briefly, the course of operations is as follows. At the commencement of the calendar year the Budget Division sends out a circular to all the U.N. departments etc., and to those institutes [26]) financed from the U.N. Budget, giving instructions for the drawing up of their Budget estimates. (For the financial year 1952 (Jan.-Dec.) this circular was dated 1 Febr. 1951).

The circular requests the Departments to submit their estimates, together with the necessary explanatory notes, to the Budget Division not later than 1 April. The salaries of the permanent staff, which form the largest part of the budgetary expenditure, have to be shown against the names on a separate form. Further, for each head of expenditure it must be stated whether this also yields an income, and if so, how much this amounts to.

Each Department has an Executive Office under its Assistant Secretary-General and his deputy, which office deals with all administrative and financial matters, so that the „operating divisions" can devote themselves as much as possible to their proper tasks. The head of the Executive Office and his deputy are the certifying officers

[24]) Document General A/1946.
[25]) Document Financial S/t/AFS/S GB/91.
[26]) See enumeration in the second paragraph of § 89.

of the department; as a rule they have an assistant who is in charge of financial affairs.

On receipt of the budget circular the Executive Office requests the operating divisions to supply their programs and estimates for the coming year. When these come to hand they are analyzed, informal talks take place with the Budget Division and finally a budget request is submitted to this Division by 1 April.

When the Budget Division has received the provisional estimates these are distributed among about 7 or 8 examiners, who also analyze them, obtain further written information from the departments and hold informal meetings with them. After this has been done, they draw up a report for the head of the Budget Division, who inspects the various reports, annotates them and then submits them to the Director of Finance, the head of the Bureau of Finance.

The comments and observations of the heads of the Bureau of Finance and the Budget Division are passed on to the examiners, who inform the departments, by letter, of these comments and of the decisions taken on their estimates. These letters are signed by the Director of Finance and provide the data for discussion at meetings between representatives of the departments and of the Budget Division.

In practice most points of difference are solved at this level if they have not already been cleared up by the examiners.

Should disagreement still persist after the above-mentioned meetings, discussions take place between the head of department concerned and the Assistant Secretary-General of Administrative and Financial Services. If these two fail to agree, the Secretary-General's decision has to be obtained.

By about May 15 the preparatory work has progressed far enough to enable the examiners to frame the budget, which appears in printed about June 15 under the title: *Budget Estimates for the year 19... and Information Annexes.*

§ 94 - *Form of the Budget.*

Budget Classifications in general. As a rule the following distinctions are made:

Classification by function;
„ „ organizational unit;
„ „ character; current and capital expenditure (double budget);
„ „ object of expenditure.

In general the *main* classification employed for a budget is by function, on the understanding that this classification usually corres-

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		$	Classification according to:
Part. I	Sessions of the General Assembly, the Councils, Commissions and Committees . .	1.142.400	function and organizational unit
Part. II	Investigations and Inquiries (including $ 300.000 for U.N. Field Service)	2.800.000	function and organizational unit
Part. III	Headquarters, New-York . .	29.056.300	function and organizational unit
Part. IV	United Nations Office at Geneva	4.376.000	organizational unit
	Office of the High Commissioner for Refugees . . .	300.000	function and organizational unit
Part. V	Information Centers	871.600	function and organizational units
Part. VI	Regional Economic Commissions	1.338.000	function and organizational units
Part. VII	Hospitality	40.000	function
Part. VIII	Contractual Printing	2.015.900	function
Part. IX	Technical Programmes . . .	1.234.900	function
Part. X	Special Expenses. Transfer of assets of the League of Nations to the U.N.	649.500	character (capital-outlay)
	Amortisation of the Headquarters Construction loan .	1.000.000	character (capital-expenditure)
Part. XI	The International Court of Justice	624.000	function and organizational unit
		45.450.600	

DEPARTMENT OF PUBLIC INFORMATION. BUDGET 1951

Salaries and wages	$	
(1) Established posts	2.023.780	
(2) Consultants	9.000	
(3) Temporary assistance	42.000	
(4) Overtime and night differential	5.960	2.080.740
Other departmental expenses	**$**	
(1) Travel on official business	26.000	
(2) Teletype and telecommunication services	5.650	
(3) Radio Services	379.740	
(4) Photographic supplies and services . . .	46.000	
(5) Motion picture supplies and services . .	248.400	
(6) Travel and subsistence of representatives of national and international organizations	14.670	
(7) Newspaper and periodicals and news agency services	2.800	723.260
		2.840.000

ponds with division according to organizational unit. This is also true in the case of the United Nations, as appears from the classification shown on p. 350.

Insofar as it is not indicated in Part X the classification by character is made within the framework of the main classification, by giving the expenditure on permanent equipment and installations separately.

Classification by object of expenditure is also made within the framework of the main classification, as appears from the breakdown of the Department of Public Information's expenditure on page 350.

Since these and other types of expenditure occur in all sections of the United Nations organization, it is important to know what their sum total amounts to. For this purpose a list is provided in Annex III of the Budget Estimates, entitled: *Summary of Budget Estimates by related items* in which the total budget expenditure is divided up into 14 different catagories.

Annex III of the 1951 Budget Estimates gives another summary, in addition, entitled: *Summary of Budget by objects of expenditures.* The explanatory notes referring to this read:

"This summary, and similar summaries of the budgets of specialized agencies, are intended to give the Members an over-all picture of the total expenses of the United Nations and the specialized agencies and to facilitate the comparison of expenses between them".

Another form of classification which cuts right across those already mentioned is by project or program.

A given project may be carried out by a certain organizational

Projects		Amounts $
General Assembly, commission and committees . . .		3.825.000
Security Council, commissions and committees . . .		5.140.000
Economic and Social Council, commissions and committees:		
(a) Economic programme	9.464.000	
(b) Social programme	5.166.000	14.630.000
Trusteeship Council, commissions and committees .		2.319.000
International law		1.801.000
Public information		5.796.000
Public administration		167.000
Special expenses:		
(a) Transfer of League of Nations assets to the United Nations	649.500	
(b) Amortization of the Headquarters construction loan	1.000.000	1.649.000
Undistributed expenses		10.123.300
	Total	$ 45.450.800

unit, but also by cooperation between two or more such units. An organizational unit may also be engaged on more than one project at the same time, which will, in fact, often be the case.

It is important, however, that an estimate should be made of what any given project will cost, and it is therefore necessary that a separate statement should be drawn up for the purpose in addition to the usual budget estimates. This was done in Annex II of the Budget Estimates 1951.

Such a statement (see p. 351), which has the character of a performance budget, should undoubtedly be welcomed. In our opinion, however, it is too summary, in the sense that the specification according to projects ought to be carried much farther. The amount of the undistributed expenses is also too high in relation to the other amounts given.

For further remarks on this subject the reader is referred to § 101.

§ 95 - *Adoption of the Budget (Phase 2 of the budget cycle).*

The General Assembly has set up a *Committee on Administrative and Budgetary Questions* (Fifth Committee) for the purpose of preparatory work regarding administrative and financial affairs, on which Committee all the member states, 60 in number, have a representative. This Fifth Committee only meets during the period that the General Assembly is in session.

In view of this, the Committee has appointed a standing committee of nine experts known as the *Advisory Committee on Administrative and Budgetary Questions.*

This Committee meets from about June 15 to August 15 during which period it deals with the Secretary General's draft budget. For this purpose it holds hearings with the heads of the departments and Budget Division officials. It then publishes a report addressed to the General Assembly, which it submits to the Fifth Committee.

The budget is now examined by this latter Committee. All kinds of supplementary requests are received besides, which require scrutiny. For example, the Economic and Social Council meets in the summer months and consequently the financial effects of its decisions are not included in the draft budget, which is ready by June 15. During its session, which commences as a rule on the third Tuesday in September, the General Assembly itself passes resolutions involving expenditure in the ensuing year and thus necessitating new estimates.

The budget procedure pursues this course until December 8, the closing date for the budget in the Fifth Committee. This Committee then presents the budget to the General Assembly, which passes it in its final form during the period December 14-18.

It should be added that the Advisory Committee also reports on

other administrative or financial matters, when asked for advice on these by the Fifth Committee.

§ 96 - *Execution of the Budget (Phase 3 of the budget cycle).*

I - *By the Budget Division.*

As soon as the General Assembly has finally determined the budget, the Budget Division draws up a summary of the appropriations, which is sent to the departments for information. The departments may not incur obligations, however, on the strength of this but must wait for the Budget Division's allotments.

In making these allotments the Division applies two systems:

1 - on a time-basis: e.g. the amount for salaries is allocated for the whole year, an amount representing 3 % of the total being held back as a reserve;

2 - on a project-basis: e.g. if a mission is to be sent to some country and is preceded by an information group, an allocation is made for this latter group in the first place and another, later on, for the mission itself.

The Budget Division maintains a watch on the execution of the budget principally in two ways:

a - by taking note of monthly statements drawn up by the Accounts Division, and by taking action, if necessary, on the basis of these;

b - by despatching to all departments, at or before the commencement of the year, *a manning table,* in which table all the staff posts which the department may fill are detailed. The manning table may possibly show a smaller number of posts to be filled than was estimated in the appropriations.

A check is maintained on the departments' observance of the manning tables by the Bureau of Personnel, which reports any infringements. The manning tables are, of course, open to alterations during the course of the year.

II - *By the Departments.*

The Budget Division's notification of the budget determined by the General Assembly is received in the Executive Office of the various departments. This Office informs the other sections of the department in writing of the appropriations and allotments, for these sections are responsible for seeing that they keep within the prescribed limits.

When a section wishes to incur an obligation which will later be followed by a payment, a form is filled in (purchase order, printing order, travel authorization, etc.). This obligation document is sent to the Executive Office where it is ascertained whether the allotment,

or appropriation as the case may be, has a sufficient credit balance. If this is so, and there are no other objections, the request is signed by one of the two certifying officers, the head of the office and his deputy acting in this capacity. The relevant amount is encumbered in a simple card system. The request is then forwarded to the Accounts Division of the Bureau of Finance. If the request involves a sum of $ 500 or more, the obligation may not be incurred before the Accounts Division's approval has been noted on the form, signifying that the moneys have been reserved in the Division's central accounting records.

For the purpose of control each departmental Executive Office receives once a month from the Accounts Division a copy of the ledger sheets, giving the mutations and present state of the department's allotments.

III - *By the Treasury.*

The Treasury's principal functions are: 1) receipt, 2) disbursement and 3) custody (or investment) of money of the United Nations and of the Trust Funds.

The Funds. The fund system is employed in a manner analogous to that usually employed by public bodies in the United States of America, the division being as follows: a General Fund, special Funds, such as the United Nations International Children's Emergency Fund (U.N.I.C.E.F.) and Trust Funds, of which the Joint Staff Pension Fund is the most typical example.

The Working Capital Fund is something special. The source of the United Nations income is provided by contributions from the member states, which contributions are received in stages and come in after the disbursements have been incurred, as is the case with the tax receipts of public bodies. Therefore in order to be able to finance expenditure on a regular basis, a Working Capital Fund has been created into which each member state must pay its share. The Fund thus represents a permanent loan made to the United Nations Organization by its members. Should a member leave the organization, the amount of its loan, less any arrears of contribution, is repaid to it. (N.B. This Fund bears much resemblance to the Cash Basis Fund set up by the City of Berkeley — see § 62).

Receipts. The principal part of the receipts is formed by the member's contributions mentioned above. After the General Assembly has fixed the budget, whereby the total amount to be contributed by member states is determined, the Treasury sends a letter to the members (early in January) informing them of the amount of their

contribution for the current year and of the manner in which payment must, or can, be made (installments, currency).

When a new member State is admitted, it receives a statement showing the amount to be paid as its advance to the Working Capital Fund and of the amount of its annual contribution.

Expenditure. Payments are made exclusively by means of *vouchers,* which are provided with a certificate of approval by the Accounts Division. The Treasury's responsibility is restricted in this matter to ascertaining whether the voucher is in accordance with the prescribed regulations.

If this is so, checks are drawn, booked in the *Voucher and Check Register* and despatched. The entries are made on loose-leaf sheets, one of which forms the Register itself, while another is sent with the vouchers to the Accounts Division. The different bank accounts on which the checks are drawn are credited from the Register entries. (Each sheet shows checks for one bank and one fund only).

The bank accounts are checked, some of them daily, against the statements received from the banks. Paid checks go direct from the banks to the Accounts Division; this Division checks its books against those of the Treasury and performs the reconciliation[27]) between the balances as given by the banks and those in its own books. The difference is accounted for mainly by checks still outstanding.

Investment. The Treasury is charged with the investing of the United Nations own moneys and of special funds, e.g. the U.N.I.C.E.F., and also of the Joint Staff Pension Fund and other trust funds, of which the Pension Fund provides the most work.

The General Assembly has appointed a select Committee known as the U.N. Investment Committee. It consists of three members who are international experts on banking and investment and whose task it is to make general recommendations to the Secretary-General regarding investments. The U.N. Treasurer is the secretary of this committee, which usually meets once a year for about ten days during which period it deals with investment matters, especially those concerning the Pension Fund.

The investment of the Nations' own funds and of the I.C.E.F. is not a very difficult matter, since investment is confined to short-term stock.

As regards the Pension Fund, long-term investment upto and including 1950 was confined to bonds of given duration (not longer than 40 years), of given rating (double A rating) and in a given currency (U.S. dollars with a small amount in Canadian dollars). Thus the range of choice is limited and it is difficult as a result to obtain the yield of 2½ % prescribed by the statutes, being the percentage of actuarial interest.

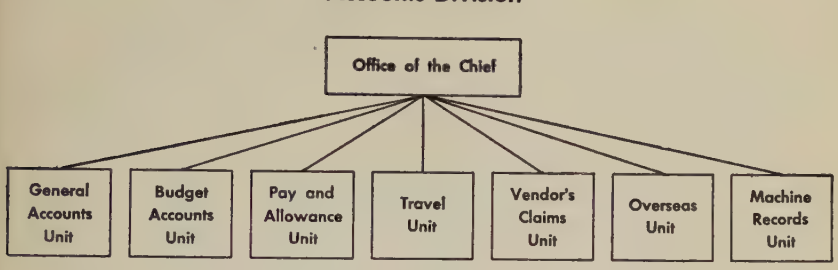
The possibility of investing part of the funds (for the time being not more than 5 % to 10 %) in stock is therefore under consideration in order a) to maintain the yield above the 2½ % level and b) to safeguard the funds against depreciation of the currency.

The Committee was to pronounce its recommendations on this score in the fall of 1951.

[27]) For reconciliation see §§ 45 and 65.

IV - *By the Accounts Division.*

The Accounts Division is organized in the manner shown in the following diagram.



The General Accounts Unit books all payments which have been approved, according to their nature, in one or other of the following units: the Pay and Allowance Unit, the Travel Unit, Vendor's Claims Unit and the Overseas Unit.

The Pay and Allowance Unit handles the payment of salaries and various allowances to the staff of the secretariat in New York and of the smaller branch offices. Larger branch offices, that at Geneva for example, keep their own payroll. The payroll is made up every fortnight and payment effected. This Unit also issues instructions regarding advances of salaries, payment of a portion of the salary elsewhere than in New York (assignments) and for the payments of income tax paid by U.S. residents to the U.S. Bureau of Internal Revenue.

The Travel Unit receives from the certifying officers vouchers signed by them for the reimbursement of personal expenses connected with travel on duty, removal of household goods and effects, education grants for children, of U.N. official hospitality, travel at the commencement and termination of appointment and for home leave. After investigation and approval the vouchers go to the Treasury for payment.

The Vendor's Claims Unit handles in similar fashion all invoices submitted by suppliers.

The United Nations has a number of field offices outside New York, or other offices, which, as far as this description is concerned, are similar and at which payments have to be made. Such offices are the Information Centers (about 17 in total), Regional Economic Commissions and Political Missions.

The Overseas Unit deals with the accounting affairs of the field offices etc. These offices are financed on the basis of advances or imprests, the amount of the advance being proposed by the Unit

and requiring the approval of the Director of the Bureau of Finance.

Once a month the field offices send a statement of account, provided with vouchers, to New York where these are checked and booked by the Unit [28]).

The advance or imprest account is credited with the approved expenditure; the unapproved expenditure being charged to the personal account of the head of the field office. Insofar as the approved amounts represent budgetary expenditure, they are booked in the budget accounts; insofar as they are reimbursable at the field office, they are debited to an account, entitled *Advances to be recovered locally,* and insofar as they represent advances to or for other field offices, they are charged to these offices.

The field office payrolls are partly prepared at New York Headquarters, for instance, those for the international personnel of Political Missions and of the Information Centers. Payrolls for locally appointed staff are made up at the field offices themselves. The Economic Commissions make up their payrolls for the whole of their staff.

Independent accounting offices outside New York. The International Court of Justice at The Hague and the United Nations Office at Geneva are independent as regards their accounting. They send in monthly financial reports to the Accounts Division, but keep all the vouchers and other supporting documents.

The Budget Accounts Unit. Before an obligation of $ 500 or over is incurred, the relevant document, signed by a certifying officer, has to be submitted to this Unit. When it has been certified as to availability of funds in the Accounts Division, the amount is encumbered and the commitment can then be entered into.

The Appropriation Ledger, which is kept posted in the Budget Accounts Unit, is a ledger of original entry in which appropriations determined by the General Assembly are booked (and also alterations to these [29]), together with the allotments made by the Budget Division and the incurred obligations.

At the end of the month these three categories of amounts are posted to the control accounts of the General Ledger by means of a journal voucher.

A subsidiary ledger is also maintained in the Unit for all budget accounts financed out of the General Fund. An N.C.R. Card [30]) is

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[28]) From January 1950 onwards, the Inspection Service has been performing this post audit for the Economic Commissions and Political Missions, the Overseas Unit preparing the voucher for the entries and the reconciliation of the advance, or imprest account.

[29]) In certain cases the Secretary General may, with the approval of the Advisory Committee, make transfers from one section to another.

[30]) National Cash Register Bookkeeping Machine Card.

maintained for each budget account showing (1) allotments issued, (2) obligations incurred, (3) expenditures and (4) unencumbered balances.

The obligations are posted from the relevant document while the expenditures are posted from the vouchers.

Yet another subsidiary ledger is kept in the Unit for expenditures to be charged to other funds, such as the Working Capital for the Expanded Programme of Technical Assistance [31]), the Joint Staff Pension Fund and other Trust Funds.

The General Accounts Unit keeps the General Ledger posted, for which purpose it receives the vouchers after payment has been effected. The Ledger comprises all the cash and bank accounts and accounts for receivables, investments and liabilities, control accounts for the budget accounts and the accounts of all other funds.

Each month a financial statement is prepared with which the financial reports of the International Court of Justice and of the United Nations Office at Geneva have been consolidated.

The financial report which is published annually will be discussed in § 98.

§ 97 - *Audit of the accounts (Phase 4 of the budget cycle).*

The Internal Audit.

In the article *Internal Control* of the Financial Regulations the General Assembly lays down *inter alia* that the Secretary General shall:

(a) .....
(b) .....
(c) .....
(d) maintain an internal financial control which shall provide for an effective current examination and/or review of financial transactions in order to ensure:
(1) the regularity of the receipt, custody and disposal of all funds and other financial resources of the Organization;
(2) the conformity of obligations and expenditures with the appropriations or other financial provision voted by the General Assembly, or with the purposes and rules relating to Trust Funds and Special Accounts;
(3) The economic use of the resources of the Organization.

Pre-audit. It has already been seen in the description in the preceding section that the *Accounts Division* carries out an examination before payment as regards payments made in New York.

Post-audit. Expenditure incurred by the field offices, the supporting

[31]) A number of countries, including some non-members, have pledged funds for Technical Assistance, which is provided by various United Nations organizations. The Secretary General of the U.N. is the custodian of these funds which are allocated as follows: United Nations: 23 %, International Labor Organization: 11 %, World Health Organization 22 %, Food and Agricultural Organization 29 %, International Civil Aviation Organization 1 % and Unesco 14 %.

vouchers of which are sent to New York, are controlled by the Accounts Division (for Information Centers) or Inspection Service (for Political Missions and Regional Economic Commissions) after payment has been made, while the expenditures of the offices with independent accounting are subjected to control on the spot by the Inspection Service.

The duties of this Service are defined in article 15 of the Secretary General's Financial Rules, under the title *Internal Inspection,* and read as follows:

> The Inspection Service of the Department of Administrative and Financial Services shall review transactions having financial implications, as to the regularity of the receipt, custody and disposal of all funds and other financial resources of the Organization, the conformity of obligations and expenditures with the appropriations or other financial provisions voted by the General Assembly and the allotments issued thereunder, or with the purposes and rules relating to Trust Funds and Special Accounts, and as to the conformity of all such transactions with the rules relating thereto.

This definition only covers the *verification* and not the *control of efficiency*. When the Inspection Service was set up in 1949, however, the Secretary General virtually charged this Service with control as regards efficiency and economy. The relevant instructions refer to investigation and reporting with regard to

"whether there has been economical use of funds";

"any wasteful practices existing in the Secretariat";

"effectiveness, efficiency and maximum utilization of staff and equipment".

It may therefore be assumed in this respect, and also in connection with article d, 3 of the Financial Regulations (see beginning of this section) that the control of efficiency is still one of the essential tasks of the Inspection Service [32]).

The Service is a separate bureau of the Department of Administrative and Financial Services and is, in consequence, independent of the Bureau of Finance, as it should be.

The Inspection Service's control takes the form of post-audit, though the size of its staff does not permit the full audit of the entire financial administration. For this reason it is necessary to confine the work to test audits. These concern certain categories of payments (travel expenses for some month) or certain programs or projects (for instance, financial audit of the United Nations Headquarters Planning Office in New York).

Part of the audit has to be performed outside New York, such as

[32]) It should be remarked that the addition to the Budget Division of a Unit for Administrative Management is under consideration. Even if this should take place, the Inspection Service ought, in our opinion, to retain the task of efficiency control, for, as we see it, this task is indissoluably linked with the post-audit.

the audit of the United Nations Office at Geneva and the International Court of Justice at the Hague, i.e. where an independent accounting administration exists outside New York.

The Service presents its reports to the Assistant Secretary General for Administrative and Financial Services; one copy goes to the Bureau of Finance, one to the department concerned and one to the Board of Auditors.

All the remarks contained in the reports are first discussed with the department involved. When one of the Service's recommendations is adopted by the department the remarks are often omitted in the report.

§ 98 - *Audit of the Accounts (Phase 4 of the Budget Cycle, continued).*

According to Article XI of the Financial Regulations, entitled "The Accounts", the Secretary General must hand over the United Nations accounts for the previous financial (calendar) year to the Board of Auditors by March 31 at the latest. This Board, which is charged with the external audit on the General Assembly's behalf, is appointed by that Assembly. It comprises three members, each being the Auditor General, or identical authority, of one of the member nations. Each is appointed for a period of three years and eligible for re-appointment.

The Board's audit is laid down briefly in article XII, „External Audit", of the Regulations. Somewhat detailed rules are included in an „Annex to the Financial Regulations" under the title „Principles to govern the audit procedures of the United Nations".

Scope of the audit. The external audit covers all United Nations accounts including all trust accounts and special accounts. It is also concerned with verification as well as with efficiency control.

Aim of the audit. The intention is that, as a result of its audit, the Board shall declare:

(a) that the financial statements are in accord with the books and records of the Organization;
(b) that the financial transactions reflected in the statement have been in accordance with the rules and regulations, the budgetary provisions, and other applicable directives;
(c) that the securities and moneys on deposit and on hand have been verified by certificate received direct from the Organization's depositories or by actual count.

As the reader will have gathered, the above defines the formal and legal audit, i.e. the verification; efficiency control is entrusted to the Board by the following provision:

„The Board of Auditors, in addition to certifying the accounts, may make such observations as it may deem necessary with respect to the efficiency of the

financial procedures, the accounting systems, the internal financial controls and, in general, the financial consequences of administrative practices".

The audit in practice. The members of the Board and those working under its direction are obliged to swear an oath, the terms of which are fixed by the Advisory Committee. After this has been done, they have access to all books and documents as far as is necessary for the performance of their duties.

The extent to which the audit goes into details is left to the discretion of the Board. As regards the trust accounts and special accounts the Board must consult the Advisory Committee on the matter of detail. The amount that may be expended on this part of the audit is decided in advance and thus the resultant limitations on the scope of the audit must be discussed with the Advisory Committee.

Since the Board relies on the assistance of the Inspection Service's internal audit for the purpose of its own audit, it is important that it should be sure of the reliability of the work performed by this Service. With a view to this, the Annex mentioned above contains the following proviso:

"The Board of Auditors may affirm by test the reliability of the internal audit, and may make such reports with respect thereto, as the Board may deem necessary, to the General Assembly or to the Advisory Committee on Administrative and Budgetary Questions, or to the Secretary General."

Results of the audit. Should the Board desire to make criticisms on the basis of its audit, it may not do so in its report until it has afforded the Secretariat the opportunity of saying its word on the matters raised.

Objections arising during the audit to expenditure incurred must be brought immediately to the notice of the Assistant Secretary General for Administrative and Financial Services.

The Board is not entitled to disallow items in the accounts but it must inform the Secretary General of the matter concerned so that the latter can take measures regarding expenditure the legality or propriety of which is doubted by the Board [33]).

Reports. The Board has to present a report to the General Assembly which covers:

(a) The extent and character of its examination or any important changes therein;
(b) Matters affecting the completeness or accuracy of the accounts, such as:
I - Information necessary for the correct interpretation of the accounts;
II - Any amounts which ought to have been received but which have not been brought to account;
III - Expenditures not properly substantiated;

[33]) These cases are, of course, included in the Board's report to the General Assembly.

(c) Other matters which should be brought to the notice of the General Assembly, such as:

I - Cases of fraud or presumptive fraud;
II - Wasteful or improper expenditure of United Nations money or other assets (notwithstanding that the accounting for the transactions may be correct);
III - Expenditure likely to commit the United Nations to further outlay on a large scale;
IV - Any defect in the general system or detailed regulations governing the control of receipts and expenditure, or supplies and equipment;
V - Expenditure not in accordance with the intention of the General Assembly, after making allowance for duly authorized transfers within the budget;
VI - Expenditure in excess of appropriations as amended by duly authorized transfers within the budget;
VII - Expenditure not in conformity with the authority governing it.

(d) The accuracy, or otherwise, of the supplies and equipment records as determined by stock-taking and examination of the records.
(e) Transactions accounted for in a previous year, concerning which further information has been obtained, or transactions in a later year concerning which it seems desirable that the General Assembly should have early knowledge.

This report is issued annually under the title: *Financial Report and Accounts for the year ended 31 December 19... and Report of the Board of Auditors.*

The first part, i.e. the financial report and accounts, is drawn up by the Accounts Division. The report gives an analysis which treats the following subjects: the budgetary position, obligations incurred, cash and investments, the Trust Funds and Special Accounts.

The section dealing with accounts shows these by appropriation and gives in respect of each: the amount granted by the General Assembly, obligations incurred (distinguished according to outstanding obligations and expenditures) and the unobligated balance. It is these accounts (see conclusion of § 96) which are presented by the Secretary General to the Board of Auditors, in accordance with the provision mentioned at the beginning of this section, for the purposes of the Board's audit.

§ 99 - *Determination of the accounts by the General Assembly (Phase 5 of the budget cycle).*

The Board of Auditors has to send its report to the General Assembly not later than June 1 following the end of the financial year to which the accounts relates. The report is then submitted to the Advisory Committee which has to forward its comments, if any, to the General Assembly.

When the report of the Board of Auditors is being considered by the General Assembly, a representative of the Board has to be present.

§ 100 - *The external audit of the accounts of the Specialized Agencies.*

The Specialized Agencies are not subject to audit by the Board of Auditors, but have an external audit of their own. The only coordination which exists in this respect is that once a year the United Nations auditors and those of the Specialized Agencies meet for a few days in order to try to arrive at common principles governing their respective audits.

§ 101 - *Appraisal.*

A comparison of the description given in this Part with those given in the preceding Parts reveals many points of resemblance between the financial system of the United Nations and those of the Federal Government, the state and the city in the United States of America, though in the former system imperfections we observed in the latter have been avoided.

The system employed by the United Nations answers, in our opinion, to reasonable practical and theoretical demands, though there is room for improvement on some points.

The Budget. We have already said in § 54 that the task of a budget bureau is not confined to financial duties alone but also extends to improvement of management. This, especially, makes it desirable that the head of the budget office should stand as close as possible to the head of the Executive. This is so in the case of the Federal Government of the U.S.A., where the Bureau of the Budget forms a Section of the Executive Office of the President, and in § 54 we recommended the same system for the Netherlands, i.e. the transfer of the Budget Section to the Minister President's department.

We would make the same recommendation in the case of the United Nations. This would accordingly imply that the Budget Division should be transferred to the Executive Office of the Secretary General. The Inspection Service too would have to be included in such a transfer. In this event the Inspection Service and the present Budget Division could be combined to form a new Bureau of the Budget [34]).

By this combination the difficulty mentioned in note 32 on page 359 would be automatically solved.

A *budget* is a *plan* and it should therefore afford insight into projects or programs and their cost, so that the sacrifice and advantage involved can be weighed the one against the other.

[34]) This combination is found in the Netherlands as well, where the most important organ of internal control (the Central Inspection Service) forms part of the Budget Division of the Ministry of Finance.

The *classification* employed in the official U.N. budget does not, in our opinion, answer completely to these demands. For of the total 1951 Budget, amounting to about $ 45 million, about $^2/_3$ ($ 29 millino) is for „Headquarters, New York". And of these $ 29 million an amount of approximately $ 19 million is destined for: Conference and General Services ($ 7,2 million), Administrative and Financial Services ($ 3 million), Common Staff Costs ($ 4,3 million), Common Services ($ 3,4 million), Permanent Equipment ($ 1,2 million). These amounts are expended on all types of aims and projects, but there is no indication whatsoever for which and to what extent. If the $ 2 million for Contractual Printing is added to this sum of $ 19 million, more than $ 20 million of the total of $ 45 million is justified as „undistributed" per project.

This shortcoming in the official budget is compensated for to some extent by the „Project Estimates" (see page 351) in which the „undistributed expenses" are reduced to $ 10 million; we have, however, already remarked with regard to these estimates that the detail given concerning the projects is far too slight to afford a proper picture of them. We should like, therefore, to offer the advice that the Budget Division should draw up a more detailed „performance" budget. The Accounts Division could also fulfill an important supplementary task in this connection.

The Accounts. The system of accounts employed by the Accounts Division follows the classification used in the budget, whereby it is just as difficult to obtain a clear picture of the results of its control as it is of the cost of budget projects. Besides this, the „performance" budget is not reflected in the bookkeeping, so that the cost of projects is estimated roughly but not calculated later on. And in the absence of this calculation, there is little or no value in estimates.

Our recommendations on the basis of the preceding observations will be obvious enough: they are that a system of accounting should be introduced, which would show the *cost price* of the most important projects or activities. The introduction of such a system would cause large amounts of „undistributed expenses" to become a thing of the past.

It should be clearly understood, however, that we do not advocate *exaggerated* detailing of costs or superfluous work, simply to satisfy a *principle,* but rather such a cost price administration as would ensure that the essential information for administering and judging costs would automatically be reflected in the accounts.

The external audit. I cannot feel much sympathy for the provision contained in point 9 of the „Principles to govern the audit procedures of the United Nations", whereby the Board of Auditors is denied the right to "disallow items in the accounts".

Personal experience has taught me thoroughly that, even when the right of disallowance *is* granted, a sum once paid (or for which an obligation has been incurred) is only seldom repaid into the Treasury.

But the importance of this point lies elsewhere. If the Board has no right of disallowance and the Secretary General takes no action at all on a disputed payment or amount, and no member of the General Assembly raises the matter during the Assembly's discussion, the Board's objection has no effect. If, however, the Board is given the right of disallowance, the Executive (i.e. the Secretary General) is obliged in any event to take measures, either by seeing that the sum is repaid into the Treasury, or by asking for an appropriation to cover it, in which case the General Assembly is obliged to come to a decision on the matter.

The right of disallowance [35]) considerable strengthens the position of the external auditor and we should accordingly welcome the granting of this right to the United Nations Board of Auditors.

I have also asked myself whether it would be worth while recommending that the Board of Auditors be charged with the financial audit of the Specialized Agencies as well, or, at least, with the supervision of this audit. The latter procedure would mean that the Board would appoint the external auditors itself, or have a say in their appointment, determine their working program and receive their reports for consideration.

I raise this question since I have been informed that the present coordination between the U.N. auditors and those of the Specialized Agencies (see § 100) is thought to be of very little value. Centralization of the external audits might remove any inefficient overlapping of the United Nations' and the Specialized Agencies' respective projects.

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[35]) The Comptroller General of the United States of America and the General Auditing Court in the Netherlands both enjoy this right, to mention only two examples.

BOOKREVIEW/CRITIQUES

Considérations sur la nature juridique de la cotisation patronale aux assurances sociales.

Nous avons reçu un „Recueil de travaux du Centre interfacultaire du travail de l'université de Liège" en vue d'en donner un compte-rendu. Ce recueil constitue la première publication commune du dit centre interfacultaire et contient, outre un certain nombre d'articles émanant de professeurs, collaborateurs et étudiants au Centre, à titre d'introduction l'allocution faite le 13 octobre 1938 par le professeur Henri Frédéricq, recteur de l'université de Liège, lors de l'inauguration du Centre, ainsi que le texte de l'arrêté du Régent du 16 décembre 1947, portant création du Centre interfacultaire du travail à l'université de l'Etat à Liège (Moniteur 4 mars 1948) et le programme des cours des divers groupes d'étudiants.

Bien que dans le cadre de cette revue mon intérêt doive aller surtout vers les articles publiés, il me paraît souhaitable de dire également quelques mots au sujet du Centre interfacultaire lui-même, lequel constitue un exemple intéressant de la collaboration tant souhaitée à l'heure actuelle en matière d'enseignement supérieur. Le but du Centre interfacultaire n'est pas de réunir un groupe de sciences en vue de former des universitaires d'un groupe déterminé, mais de grouper toutes les sciences ayant un rapport direct ou indirect avec le phénomène du travail, en vue de former ceux qui, dans les professions diverses, sont intéressés par le phénomène du travail. Ces cours sont conçus non seulement pour les diplômés mais également, moyennant certaines conditions, pour les élèves sans diplôme. Le programme diffère selon la formation antérieure des étudiants. C'est ainsi que le programme est différent pour les juristes, les médecins les chimistes et les ingénieurs. Tandis que les médecins p.ex.ne doivent pas faire de médecine sociale, les autres étudiants doivent l'étudier. Par contre, les juristes ont moins d'économie que les autres groupes, etc. L'élève qui réussit l'examen reçoit un „Diplôme du Centre Interfacultaire du Travail".

La publication donne en ordre principal une série d'articles divers: du prof. G. Batta: Une unité naturelle du travail humain; du prof.

P. Chantraine: Détermination judicieuse du système de salaires; de G. Coppée: Les épreuves fonctionnelles cardiaques et respiratoires en médicine du travail; de S. David: De la nature juridique des cotisations patronales à la sécurité sociale; du prof. P. Lambert: Chômage et niveau des salaires d'A. Lebrun: La Réadaptation professionnelle et les problèmes connexes, et du prof. R. Piret: Les causes psychologiques des accidents du travail.

Il est clair que l'examen des articles énumérés ci-dessus, et particulièrement de ceux relatifs à la médecine et à la psychologie sociales, sortirait du cadre de cette revue, quelque intéressants qu'ils puissent être en eux-mêmes. C'est pourquoi je veux me restreindre à l'examen d'une seule étude, celle de Simone David. „De la nature juridique des cotisations patronales à la Sécurité Sociale", qui traite un problème-limite du droit du travail et de la théorie des finances publiques. La nature juridique des cotisations patronales à la sécurité sociale est-elle celle d'un salaire ou d'un impôt? L'auteur signale, à la suite de F. Perroux et de L. Alvin, que la rémunération totale du travailleur se compose de trois parties: 1) le salaire de rendement ou d'activité (qui s'identifie avec la notion juridique traditionelle du salaire); 2 le salaire social ou différé (qui est sans corrélation avec la productivité individuelle du salairié, mais lui est néanmoins attribué comme prix complémentaire de son travail à l'occasion d'une redistribution du revenu collectif), et enfin: 3) le salaire commun, qui est collectif non seulement dans la source, mais également dans son usage (réfectoires, cantines, surveillance médicale des travailleurs, oeuvres sociales organisées au sein de l'entreprise en faveur de son personnel). En ce qui concerne cette dernière partie du revenu, on est d'accord pour admettre qu'elle n'est pas couverte par la notion juridique du salaire.

Il s'agit donc du salaire social ou différé. La plupart des auteurs y englobent également les prestations sociales. Selon S. David, certains, comme Alvin et W. Leën, confondent même dans la notion du salaire les avantages distribués au titre de substitut ou de complément de salaire et les cotisations qui en sont le support financier. Je ne puis partager entièrement les vues de l'auteur, selon lesquelles ils commettent une certaine confusion ici. A un certain point de vue, tant les prestations que les cotisations sont des éléments du salaire social. En principe en effet le travailleur reçoit, au lieu d'un salaire dont il devrait essayer de vivre grâce à sa propre prévoyance, un salaire dont une prime d'épargne et/ou de risque est déjà déduite: notamment la cotisation patronale augmentée de la quote-part ouvrière. La prime ou cotisation constitue la partie non payée du salaire, à laquelle il ne peut prétendre en droit, mais qui, sociologiquement est certainement un élément du salaire. Mais la prestation elle aussi est un salaire social. La cotisation est le salaire social potentiel, la prestation

le salaire social actuel. Pour la collectivité des assurés le salaire social potentiel doit exister si l'on veut pouvoir payer le salaire social actuel.

Quelle est maintenant la nature juridique de la cotisation patronale? David dit que la cotisation ouvrière „est précomptée sur le salaire d'activité: elle fait à l'évidence partie de celui-ci. Elle a la nature et le régime juridique du salaire social". Je suis entièrement d'accord au sujet de cette définition. Mais la détermination de la nature de la cotisation patronale est plus difficile. Partant de la définition juridique du salaire: „Le salaire est la rémunération payée à la personne qui exécute un travail au profit d'une autre personne en vertu d'un contrat de louage de service ou d'un mandat salarié", l'auteur souligne que le payement du salaire constitue pour l'employeur une obligation contractuelle, formant la contre-prestation du travail fourni, tandis que pour le travailleur il constitue le produit dont la cause juridique se trouve dans l'exécution d'une prestation déterminée, due contractuellement. Ce revenu est certain et périodique.

David veut bien admettre qu'en matière de sécurité sociale la cotisation patronale se fonde elle aussi sur le contrat de louage de services, mais pour le travailleur elle ne constitue pas un élément exigible, certain et périodique du salaire. Sur pied du contrat, le travailleur peut faire valoir certaines revendications en matière d'assurances sociales, mais leur réalisation est subordonnée à la survenue d'événements déterminés, incertains. L'auteur conclut qu'en droit positif la cotisation patronale, à l'exception de la quote-part destinée aux vacances annuelles, ne peut être considérée comme faisant partie du salaire. La cotisation aurait-elle alors la nature d'un impôt? En Belgique, tout comme en Hollande, tel n'est pas le cas si 'lon entend par impôt: „Les prestations inconditionnelles, levées par voie d'autorité et exigées des particuliers selon leur faculté contributive en vue de permettre la réalisation des services publics". En effet: 1) les cotisations sociales ne sont payées ni à l'Etat, ni aux provinces, ni aux communes, mais à des établissements publics dotés d'une relative autonomie de gestion administrative et financière; 2) les cotisations à la sécurité sociale ne figurant pas au budget de l'Etat échappent la règle de l'universalité comme à celle du vote annuel par les Chambres; et 3) les cotisations à la sécurité sociale constituent des recettes d'affectation.

Je suis d'accord avec David qu'en droit positif la cotisation patronale à la sécurité sociale ne ressort ni à la notion juridique du salaire, ni à celle de l'impôt renseignée par lui. Autre chose est — et ici je ne partage probablement pas l'opinion de l'auteur — de savoir si l'évolution du droit ne doit pas aller en un sens où la formation de la notion, dans le droit du travail qui est né d'une manière tellement fragmentaire, s'adapte davantage aux réalités sociologiques qu'il

n'a été faut jusqu'à présent. Tout en n'étant pas un prophète le juriste doit, comme le souligne David, tenir compte d'une évolution inévitable du droit. Et je puis me figurer que l'évolution future du droit conduira à une formation de la notion qui considèrera la cotisation patronale comme un salaire même au point de vue juridique et où, quelque paradoxale que la chose puisse être, cette cotisation aura en même temps un caractère fiscal. Je m'explique à ce sujet. L'évolution contemporaine du droit a donné naissance à divers régimes sociaux dont l'aspect juridique ne trouve à vrai dire pas de place dans le système juridique classique. En Hollande on voit naître un ensemble d'assurances sociales avec des organes de droit public d'une espèce entièrement nouvelle. Les perceptions effectuées par ces organismes montrent une parente étroite avec les recettes d'affectation de l'Etat ou des organes inférieurs de droit public. A l'avenir il faudra que ce nouveau droit reçoive un emplacement déterminé dans la systématique du droit. A l'heure actuelle je suis d'accord avec David pour considérer les cotisations patronales comme des „recettes parafiscales". Je considère la théorie de la parafiscalité comme très importante. „C'est sous ce vocable qu'elle désigne une technique qui, en régime d'interventionnisme économique et fiscal vise à d'égager et à mettre en oeuvre des recettes d'affectation, hors budget, perçues d'autorité pour le compte d'organismes d'économie dirigée, d'organisation professionnelle ou de prévoyance sociale, soit par les organismes bénéficiaires eux-mêmes, soit par les administrations fiscales de l'Etat".

Je recommande volontiers la lecture de cette étude ainsi que des autres partues dans le Recueil.

G. M. J. Veldkamp

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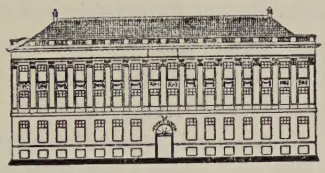

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